TENNESSEE

Single Audit Report For the Year Ended June 30, 1998

Comptroller of the Treasury
Department of Audit
Division of State Audit

Tennessee

Single Audit Report

June 30, 1998

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

July 15, 1999

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the Single Audit Report of the State of Tennessee for the year ended June 30, 1998. This report contains the Schedule of Expenditures of Federal Awards and the Results of the Audit. Consideration of internal control and tests of compliance for major federal programs were conducted in accordance with Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and disclosed certain deficiencies, which are included in the Results of the Audit section of this report.

Management has responded to the audit findings, and the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

The *Comprehensive Annual Financial Report* of the State of Tennessee for the year ended June 30, 1998, and our report thereon have been issued under separate cover.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/ra

State of Tennessee
Single Audit Report
For the Year Ended June 30, 1998

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INTRODUCTION

BACKGROUND

For the year ended June 30, 1998 the Single Audit Report for the State of Tennessee, required by the Single Audit Act and Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* is presented in two volumes. The *Comprehensive Annual Financial Report (CAFR)* for the year ended June 30, 1998, and the auditor's report thereon dated January 25, 1999, have been issued under separate cover. The Single Audit Report, the second volume, contains the auditor's reports on compliance and internal control over financial reporting and on compliance and internal control over compliance with requirements applicable to major federal programs and on the Schedule of Expenditures of Federal Awards. The Single Audit Report also contains the Schedule of Findings and Questioned Costs (including summary of auditor's results, financial statement findings, and federal award findings and questioned costs) and the Schedule of Expenditures of Federal Awards. Except for findings related to the *CAFR,* findings applicable to more than one major program or cluster are presented for each respective program.

POST-AUDIT AUTHORITY

This is a report on the single audit of the State of Tennessee. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated,* which authorizes the Department of Audit to "perform currently a post-audit of all accounts and other financial records of the state government and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller." Section 8-4-109, *Tennessee Code Annotated,* authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds, when the Comptroller considers an audit to be necessary or appropriate.

The Single Audit Act and Office of Management and Budget Circular A-133 establish audit requirements for state and local governments. They provide for independent audits of financial operations, including compliance with certain provisions of federal laws and regulations. The requirements were established to ensure that audits are organization-wide rather than grant-by-grant.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to test compliance with laws, regulations, contracts, and grants which could have a direct and material effect on the general-purpose financial statements;

2. to consider the state's internal control to determine auditing procedures for the purpose of expressing an opinion on the general-purpose financial statements;

3. to determine the fairness of the presentation of the state's general-purpose financial statements;

4. to determine compliance with requirements applicable to major federal programs;

5. to test controls to evaluate the effectiveness of the design and operation of internal control policies and procedures applicable to major federal programs;

6. to determine the fairness of the presentation of the Schedule of Expenditures of Federal Awards, in all material respects, in relation to the state's general-purpose financial statements taken as a whole; and

7. to recommend appropriate actions to correct any deficiencies.

Scope of the Audit

The audit is limited to the period July 1, 1997, through June 30, 1998, and was conducted in accordance with generally accepted government auditing standards.

The Schedule of Expenditures of Federal Awards and Results of the Audit sections are presented in accordance with the provisions of Office of Management and Budget Circular (OMB) A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

RESULTS OF THE AUDIT

Audit Conclusions

Compliance and Internal Control Over Financial Reporting

As a part of obtaining reasonable assurance about whether the state's general-purpose financial statements are free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

In addition, in planning and performing our audit, we considered the internal control over financial reporting in order to determine our auditing procedures for expressing an opinion on the general-purpose financial statements. Reportable conditions, along with recommendations and management's responses, are detailed in Section II - Financial Statement Findings.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered a qualified opinion on the state's general-purpose financial statements. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the State of Tennessee's disclosures with respect to the year 2000 issue. In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding year 2000 disclosures, these general-purpose financial statements present fairly, in all material respects, the financial position and the results of operations and cash flows of proprietary and nonexpendable trust funds as of and for the year ended June 30, 1998. The independent auditor's report dated January 25, 1999, is included in the *Comprehensive Annual Financial Report*, which has been issued under a separate cover.

Compliance and Internal Controls Over Major Federal Programs and Fairness of Presentation of Schedule of Expenditures of Federal Awards

In our opinion, except for items 98-DHS-01 and 98-DHS-02 regarding Special Tests and Provisions of the Child Support Enforcement program and items 98-DCS-07 and 98-DCS-08 regarding Equipment and Real Property Management of the Foster Care—Title IV-E program in Section III - Federal Award Findings and Questioned Costs, the state complied in all material respects with requirements applicable to each of its major federal programs for the year ended June 30, 1998.

Reportable conditions and noncompliance that are required to be reported in accordance with OMB Circular A-133, along with recommendations and management's responses, are also detailed in Section III - Federal Award Findings and Questioned Costs. Items 98-DCS-02, 98-DCS-04 through 98-DCS-11, 98-DHS-01, 98-DHS-02, 98-TDH-02, 98-TDH-03, and 98-TDH-05 are considered material weaknesses in internal controls used in administering a major federal program.

In our opinion, the Schedule of Expenditures of Federal Awards is fairly presented in all material respects in relation to the state's general-purpose financial statements taken as a whole.

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Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the General-Purpose Financial Statements Performed in Accordance With *Government Auditing Standards*

January 25, 1999

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the general-purpose financial statements of the State of Tennessee as of and for the year ended June 30, 1998, and have issued our report thereon dated January 25, 1999. We conducted our audit in accordance with generally accepted government auditing standards.

Compliance

As part of obtaining reasonable assurance about whether the State of Tennessee's general-purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to management in separate letters.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Tennessee's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Tennessee's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general-purpose financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 98-CAFR-01 through 98-CAFR-11.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, we would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management in separate letters.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, management, and the appropriate federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/ra

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COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
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Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards

May 14, 1999
except for the Schedule of Expenditures of Federal Awards,
as to which the date is January 25, 1999

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

Compliance

We have audited the compliance of the State of Tennessee with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1998. The State of Tennessee's major federal programs are identified in the summary of the auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State of Tennessee's management. Our responsibility is to express an opinion on the State of Tennessee's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted government auditing standards; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Tennessee's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State of Tennessee's compliance with those requirements.

As described in items 98-DHS-01 and 98-DHS-02 in the accompanying Schedule of Findings and Questioned Costs, the State of Tennessee did not comply with requirements regarding Special Tests and Provisions that are applicable to its Child Support Enforcement program. Furthermore, as described in items 98-DCS-07 and 98-DCS-08 in the accompanying Schedule of Findings and Questioned Costs, the State of Tennessee did not comply with requirements regarding Equipment and Real Property Management that are applicable to its Foster CareTitle IV-E program. Compliance with such requirements is necessary, in our opinion, for the State of Tennessee to comply with requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Tennessee complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1998. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 98-DCS-01 through 98-DCS-03, 98-DCS-05, 98-DCS-06, 98-DCS-09, 98-DCS-11, 98-DES-01, 98-DOE-01, through 98-DOE-03, 98-TDH-03, 98-TDH-08 through 98-TDH-10, 98-TDH-17, 98-TDH-22, 98-TSU-01, 98-TSU-02, and 98-UTH-02.

Internal Control Over Compliance

The management of the State of Tennessee is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State of Tennessee's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State of Tennessee's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 98-APS-01, 98-CAFR-01 through 98-CAFR-08, 98-CAFR-10 through 98-CAFR-12, 98-DCS-01 through 98-DCS-13, 98-DHS-01, 98-DHS-02, 98-DOT-01, 98-TDH-01 through 98-TDH-25, 98-TSU-01, 98-TSU-02, 98-UTH-01, 98-UTK-01, and 98-UTK-02 .

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 98-DCS-02, 98-DCS-04 through 98-DCS-11, 98-DHS-01, 98-DHS-02, 98-TDH-02, 98-TDH-03, and 98-TDH-05 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the general-purpose financial statements of the State of Tennessee as of and for the year ended June 30, 1998, and have issued our report thereon dated January 25, 1999. Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, management, and the appropriate federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/ra

State of Tennessee
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 1998

Section I—Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Qualified because of the Year 2000 Issue, the effects of which will not be fully determinable until the year 2000 and thereafter

Internal control over financial reporting:

• Material weaknesses identified?		yes	x	no
• Reportable conditions identified that are not considered to be material weaknesses?	x	yes		none reported
Noncompliance material to financial statements noted?		yes	x	no

Federal Awards

Internal control over major programs:

• Material weaknesses identified?	x	yes		no
• Reportable conditions identified that are not considered to be material weaknesses?	x	yes		none reported

Type of auditor's report issued on compliance for major programs:

Unqualified for all major programs, except for Child Support Enforcement and Foster Care—Title IV-E, which were qualified.

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	x	yes		no

State of Tennessee
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 1998
(continued)

Section I—Summary of Auditor's Results

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
-	Food Stamp Cluster
-	Nutrition Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants and Children
10.558	Child and Adult Care Food Program
-	Section 8 Cluster
14.228	Community Development Block Grants/State's Program
-	Employment Service Cluster
17.225	Unemployment Insurance
17.245	Trade Adjustment Assistance – Workers
-	Training Cluster
20.106	Airport Improvement Program
20.205	Highway Planning and Construction
66.458	Capitalization Grants for State Revolving Funds
83.544	Public Assistance Grants
-	Student Financial Aid Programs Cluster
84.010	Title I Grants to Local Educational Agencies
-	Special Education Cluster
84.048	Vocational Education - Basic Grants to States
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.575	Child Care and Development Block Grant
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund
93.658	Foster Care – Title IV-E
93.667	Social Services Block Grant
-	Medicaid Cluster
93.959	Block Grants for Prevention and Treatment of Substance Abuse
96.001	Social Security - Disability Insurance
-	Research and Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs: $15,942,429.89

Auditee qualified as low-risk auditee? ____ yes __x__ no

Section II—Financial Statement Findings

Finding Number	98-CAFR-01
CFDA Number	Various
Program Name	Various
Federal Agency	Various
State Agency	Department of General Services
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

Improved controls over program changes in the Tennessee On-line Purchasing System are needed

Finding

Controls over program and design changes pertaining to the Tennessee On-Line Purchasing System (TOPS) are not adequate. Requests for program and design changes are not being properly approved, a backlog of program change requests exists, changes are being made directly to the TOPS database through the Order Fix program instead of using properly authorized transactions, and system documentation has not been kept current.

Proper approvals for TOPS program and design change requests are not always obtained by Department of General Services Information Systems and Purchasing personnel. Nine of 13 program and design change requests tested (69%) were not properly approved by General Services' personnel. Without proper approval, programs could be changed inappropriately.

Program and design changes are not being made in a timely manner by General Services' personnel. The TOPS "Tracking Open Reports By Priority" report lists all open program change requests by priority on a scale of A to E with A being the highest priority. As of July 16, 1998, the report consisted of 147 open program change requests—32 A requests, 55 B requests, 36 C requests, 15 D requests, and 9 E requests. Several of the requests with a priority of C or lower appeared to be higher priority than indicated on the list, due to the potential effect of the problem on the financial statements and the effect on the efficiency and effectiveness of TOPS. Seventy-one of the 147 program and design change requests (48%) have remained incomplete for at least two years, with one request remaining incomplete for eight years. This backlog caused by the volume of requests and time constraints increases the risk that vital requests will not be given appropriate consideration due to being pushed down in priority. This large number of outstanding program changes indicates that many areas in the TOPS application are not working properly. Although in many cases compensating controls exist to ensure proper recording in TOPS, the system should be designed to operate effectively.

In addition, problems that are occurring within the TOPS application are being corrected using a program known as Order Fix. Order Fix makes changes directly to the TOPS database. Instead of using program and design changes to correct existing problems within the system, OIR programmers are allowed access to fix the problem directly in the database with Order Fix. Currently, Order Fix is being used on a nightly basis to correct system problems. In some instances, the TOPS information does not interface properly with STARS and the purchase order will not process any further until the problem is fixed. When the purchase order does not process Order Fix is used to correct the problem so the transaction can complete its processing. However, corrections to system data outside normal system controls should not be made as a normal course of daily business as this opens up the data to a greater risk of loss or misuse.

Any system will have occasional problems that require the use of utilities but nightly use of such utilities is not good management practice. Even though division staff maintain paper documentation of the Order Fix changes, the system has no history or record of these changes resulting in the lack of an audit trail. Without an audit trail, the integrity of the data is compromised and the history of transactions is not complete. If the system was designed and functioning properly, use of Order Fix would not be necessary on a nightly basis. Making changes directly to a database instead of correcting errors through properly authorized and documented transactions circumvents system controls.

Furthermore, TOPS system documentation has not been kept current. Data entry screen documentation, logic flow descriptions, and flowcharts have not been updated in three years. Current and complete system documentation should be maintained as part of the department's business resumption plan. Without complete, accurate, and up-to-date system documentation it would be difficult to re-install a system should the need arise. Complete system documentation is also necessary to provide an overview of the system to those involved in strategic planning, training of other employees, or making changes to the system.

Recommendation

The Director of Information Systems should ensure proper controls over TOPS program and design changes are implemented and followed. Program change forms should be signed by user management to designate their review and approval and should also be approved by information system and programming management.

The current backlog of program and design change requests should be reviewed and re-evaluated for priority and these requests should be completed as soon as possible. Future program and design change requests should also be completed timely on the basis of priority.

As the system problems are corrected, the use of Order Fix should be minimized and if possible, eventually eliminated. As problems arise in the future, causes of the problems should be identified quickly and TOPS should be corrected through program and design changes or other appropriate means which leave an audit trail.

Management's Comment

We concur. The information systems division will ensure that analysts testing changes also sign the request form, not just the appropriate Purchasing division approver. As of the finding date, the backlog of open requests was especially large because the entire Information Systems division analysts staff as well as all the OIR Systems Development Support (SDS) programmers supporting TOPS had been totally dedicated to the Y2K conversion project. During that project which lasted over one year, all other requests, except true emergencies were put on hold to avoid having to make program changes in two places and to minimize introducing more problems that were not related to the conversion itself.

Now that the Y2K changes have been implemented and the system has been converted to a relational database (DB2) on the Customer Information Computer System (CICS), it is the intention of the Purchasing and Information Systems divisions to review the outstanding problem reports, determine whether each is still a valid report, and reprioritize what is open. Some of these will have been corrected by virtue of changes made during the conversion. It should be noted that a number of existing program problems were identified during the conversion project testing and new problem reports were opened, thus increasing the backlog. The department plans to spend the months of May and June 1999 resolving these problem reports and postponing design change requests. This will allow the department to give particular attention to problems introduced during the conversion and problems that cause data to be corrupted or erroneously updated.

Currently the most common use of the Order Fix program is to correct an order amount that does not match the total of the order lines. While a problem report has been written up on this issue and while it has been known for some time, this occurs occasionally when a user makes an order line change during the course of creating an order. However, analysts have been unable to successfully identify the series of steps the user takes to cause the normal program logic to be bypassed. By placing priority on such problem reports which cause data errors as noted above, it will be possible for the department to devote the analyst resources needed to identify and correct these problems more quickly and thus reduce the use of the Order Fix program. However, because new program changes bear the potential of introducing new data errors, there will always be a need for a utility to repair such data. Therefore, the Information Systems division will implement a tracking document to note the requests for data fixes. This document will supplement the current system output which shows date, document number and fields changed.

About four years ago, the State discussed requiring the vendor to update the old documentation to be consistent with what was then being installed. The number of changes back logged would have made this cost prohibitive. Therefore, the Information Systems division has relied on a combination of the original documentation and the written history of design changes, as well as the programmers' code notes, to provide the complete documentation of the system. This is clearly not the best solution for a business resumption plan; however, the nature of disaster recovery in the mainframe environment would make re-installing the system unnecessary.

Finding Number	98-CAFR-02
CFDA Number	Various
Program Name	Various
Federal Agency	Various
State Agency	Department of General Services
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

Documentation to support access to Tennessee On-line Purchasing System was not on file

Finding

As noted in the prior audit, proper authorization for departmental users' access to the Tennessee On-line Purchasing System (TOPS) was not on file at the Department of General Services. Management concurred with the prior finding and stated:

> A completed and signed TOPS security form is required to set up TOPS security for an individual. Forms that are not signed are returned to the sender for signature. It has been our policy to accept security forms only when completely filled out. If a portion is missing, it is our policy to phone the individual who authorized the form and get the needed information from them verbally. The TOPS Security Officer will write this information on the form in the proper field. All security forms are being filed by the department in alphabetical order.

However, problems were still noted in the current audit with the maintenance of security requests, approvals by General Services' management, and inconsistencies with the access requested. Although each state department determines the access its staff needs to perform their jobs and files authorization forms for this access, General Services' staff are responsible for ensuring that the forms are complete and access is established in TOPS. In many instances, however, access authorization forms were either not obtained, not consistent with actual access, or not properly approved by General Services' management. The signature authorization forms for three of 38 TOPS users were missing. For the remaining 35 applicable forms tested:

- Six (17%) did not have the type of access to TOPS the department had requested on the authorization form, and
- Three (8.6%) were not properly approved by General Services' management.

Failure to obtain and document written authorization for user access means no authority exists for these users' access to the system. Failure to assign the access requested and approved allows some individuals unauthorized access to unintended parts of the system.

Recommendation

The Commissioner should determine why the department's policies referred to in their prior year comments have not been followed. The Department of General Services Purchasing Division should ensure complete access authorization requests for all TOPS users are obtained and maintained. Users should not be given access to TOPS until their departments submit properly approved authorization forms. The requests should specify the type of access approved by user management and the user should be given only the type of access requested. Also, General Services' management should properly approve all security request forms for the TOPS system.

Management's Comment

We concur. The Purchasing division is in the process of reviewing all TOPS security request forms on file for accuracy, to make sure that access requests match what is provided in the system, and to ensure that a Purchasing division representative initials each form to document approval and completion. If access is detected on the system for which we do not have a completed security form, the user ID is inactivated until an approved completed form is received. When forms are found that do not match what is on the system or are incomplete, the individual is contacted and asked to submit a new security request form with their director's approval. Completed security request forms are being filed alphabetically by department in a secured file. We plan to have this review completed by October 30, 1999.

Finding Number	98-CAFR-03
CFDA Number	Various
Program Name	Various
Federal Agency	Various
State Agency	Department of General Services
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

Controls over the Property of the State of Tennessee system need to be improved

Finding

As noted in the prior audit, administration of the Property of the State of Tennessee (POST) system does not provide assurance that assets are accurately recorded. The problems noted in the prior audit that were not corrected include retirement batches, security administration, asset values, and object codes.

Retirement of Equipment

Management concurred with the prior finding and stated that errors noted in processing retirement of equipment are now turned over to Information Systems Management (ISM) to be handled through Multitrac and OIR utilities to correct the problems. Sometimes retirements (i.e. deletions) do not post correctly and halt processing. To restart processing, the Department of General Services makes changes directly to the POST database through Utility Services On-line (USO). This utility overwrites data and leaves no audit trail such as the date of the change, its purpose, and the name of the employee making the change.

Although, management stated in the prior year finding that the use of USO was turned over to Information Systems Management (ISM), the property manager is still using USO to make corrections. The Property Manager would not need this type of access if the system functioned correctly.

In addition, eight of 100 retirements (8%) were not properly documented. Five of these did not have the approval of the department head on the retirement request, two did not contain a police or security report, and one did not contain the correct location and vendor name. Allowing assets to be retired without obtaining appropriate approval or all necessary information creates a potential for misappropriation of assets that could go undetected.

Security Administration

Security authorization forms are used by the department to authorize and document each user's approved access to POST. However, four of 60 users (6.7%) did not have the type of POST access requested. Failure to assign the access requested and approved allows some individuals unauthorized access to parts of the system.

Asset Values and Object Codes

Management concurred with the prior finding and admitted that some transfer transactions were not processing correctly, causing object code fields to be dropped. Management also stated that problems with object codes, funds, and costs were corrected. Actions taken by management were ineffective since problems were again noted with asset values and object codes in the current audit.

Records on POST were incomplete, invalid, and inaccurate:

- Thirty-nine records had object codes other than "16" (equipment) and "099" (sensitive items). These items totaled $26,203.37. There are no edits in POST to prevent incorrect object codes from being used.
- Three hundred eighty-nine records had blank object codes. These items totaled $375,036.36.
- Three hundred twenty-one items had a cost less than $1.00 because they were not recorded at fair market value. General Services' personnel do not investigate items with low costs to determine whether the items need to be recorded on the POST system, and if so, whether they are recorded at the appropriate amount. Items costing $1,000 or more and sensitive items as defined by General Services should be recorded on POST.
- POST did not have complete location information for six of 40 equipment expenditures tested (15%).

Inaccurate object codes, costs, and location information affect the accuracy of the state's fixed asset records.

Recommendation

The Commissioner should determine why management did not make the changes they stated would be made in their prior year comments. The POST system should be modified so that retirement transactions record correctly, thereby eliminating the need to use USO to correct data. Any use of USO should only be performed by Information Systems Management (ISM) and documented to include date of change, purpose of the change, name of employee making the change, and approval. The Property Manager's USO use should be eliminated. In addition, all appropriate approvals and information should be obtained before assets are retired.

The system access given to each user should agree to that approved on the security authorization form.

Edits should be established in POST to prevent incorrect object codes. General Services personnel should investigate items with low costs to determine whether the items need to be recorded on POST and if so, whether they are recorded at the appropriate amount. All location information should be completed on POST.

Management's Comment

Retirement of Equipment

We concur. Version 16.6.4 of POST was activated on February 18, 1999, and the property manager's security profile was changed on February 19, 1999, to remove USO capabilities. Management will do a closer review of retirement documentation. Nothing will be retired without complete review according to policy.

Security Administration

We concur. A review of the security forms was supposed to be completed by June of 1998. We were unable to complete this task until December of 1998. Security profiles will be compared to documents again to ensure correctness. While the documents reviewed by State Audit were incorrect, the actual profiles for the four users in question provided the security access that was needed.

Asset Values and Object Codes

We concur. The original problem of the system dropping object codes was fixed some time ago. We later discovered the field would accept any combination of numbers for an object code. A transfer screen edit was developed by our Information Systems division personnel that was made effective April 15, 1999, to ensure POST will only accept object codes 099, 095, and 16x. This edit should address the 39 items with incorrect object codes. The 389 items with blank object codes were all retired records and therefore, have no bearing on any financial reports coming out of POST. Effort is underway to provide the correct dollar amount for those items that have less than one dollar cost. All property officers are required to update location information during the fiscal year end inventories. However, we cannot control the actions of property officers in other departments.

Finding Number	98-CAFR-04
CFDA Number	Various
Program Name	Various
Federal Agency	Various
State Agency	Department of Finance and Administration
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

Duties of Employees Performing Statewide Payroll Functions Are Not Adequately Segregated

Finding

Duties of employees performing statewide payroll functions in the Division of Accounts are not adequately segregated. One employee's responsibilities include processing and approving payroll transactions through the State Employee Information System (SEIS) and the Data Capture System (DCS) systems, correcting payroll processing errors, and monitoring the issuance of payroll checks. The employee also serves as the Security Administrator for both SEIS and DCS, giving this employee access to the security settings in the systems, which provide for many of the system controls. Effective internal controls over any accounting process require duties to be adequately segregated. One employee should not be responsible for normal payroll processing, error corrections, security administration, and have access to the actual payroll checks.

While there have been no known irregularities associated with the lack of segregation of duties, the situation allows possible errors and irregularities to occur and go undetected in a timely manner by employees in the normal course of performing their duties.

This same individual is the only employee who has a comprehensive understanding of the entire payroll process. Other employees rely heavily on this employee to help them correct payroll-related problems. When only one employee has full knowledge of an accounting process, other employees may be so dependent on this employee that the division would face a major crisis if the knowledgeable employee was suddenly unavailable.

Recommendation

The Director of Payroll should re-evaluate the processes and job duties of each employee in the statewide payroll section and develop a plan to ensure employees are not assigned incompatible duties creating situations that allow for misappropriation of assets. Job assignments should be re-evaluated on a periodic basis as changes in circumstances, conditions, and computer systems occur.

Management's Comment

We concur. Many compensating controls exist to ensure appropriate processing of payroll transactions. These controls include departmental initiation and approval of transactions, Department of Personnel approval and finally Payroll management review. Even though there have been no known irregularities, the Payroll management is currently re-evaluating the processes and job duties of each employee. A plan is being developed by Payroll management to ensure employees are not assigned incompatible duties.

Finding Number	98-CAFR-05
CFDA Number	Various
Program Name	Various
Federal Agency	Various
State Agency	Department of Finance and Administration
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

Access to the State Employee Information System has not been regularly reviewed

Finding

The Division of Accounts statewide payroll section has not regularly reviewed access to the State Employee Information System (SEIS). Like other internal controls, access controls should be evaluated regularly to ensure they are still effective. Personnel and departmental changes can impact the effectiveness of these controls. Good security controls require access to systems to be limited to a "need-to-know, need-to-do" basis. Because security access has not been periodically reviewed, unused SEIS User IDs were noted. Of the 902 SEIS users as of August 8, 1998,

- 174 users had never signed on the system;
- 509 users had an active status but had not signed on the system in the last 180 days; and
- 79 users had an "inactive" status, which means that they are in "without pay status." (System security does not allow "inactive" IDs access to the system.)

The large number of unused User IDs indicates there are individuals with access who do not need it and should no longer have access to the system. Because of the sensitive nature of data in SEIS, limited access is vital.

When the Data Capture System (DCS) was implemented in fiscal year 1996, timekeeping functions were moved from SEIS to DCS. Therefore, many SEIS users no longer needed access to that system. However, neither the Security Administrator nor user management have reviewed the necessity of SEIS users' security access since DCS' inception.

Recommendation

Annually, the Division of Accounts should require the departments to review security access for all current User IDs to determine whether the access is still appropriate based on the employee's current job responsibilities. Appropriate changes should be made based on user management's recommendations. Departments should be instructed that User IDs and passwords should be revoked for those who no longer need access to SEIS. The Division of Accounts should eliminate all inactive user IDs from the system, even though inactive IDs do not allow access to the system.

Management's Comment

We do not concur. In our opinion, this is not a material weakness. The Division of Accounts controls access to the SEIS through an authorization process. Departments determine their own user needs based on their administrative control structure. The Division does not have a routine procedure for eliminating inactive user accounts, but one will be established. Inactive accounts have been removed.

Auditor's Comment

Management appears to be taking the action recommended.

Finding Number	98-CAFR-06
CFDA Number	Various
Program Name	Various
Federal Agency	Various
State Agency	Department of Finance and Administration
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

The Division of Accounts internal Post-Audit review process needs improvement

Finding

The Division of Accounts reviews departmental expenditures through either the Post-Audit or Pre-Audit process before releasing batches of data in the State of Tennessee Accounting and Reporting System (STARS). For agencies in Post-Audit status, the Division reviews the department's expenditures to determine whether the documents have been approved by author-ized officials of the department and to ensure any corrections requested by the department are made. For agencies in Pre-Audit status, the Division performs a more comprehensive review of the department's expenditures before they are processed.

Agencies may request to be placed in Post-Audit status by the Division of Accounts. The Post-Audit section of the Division then performs a review of the department's internal controls completing an internal control questionnaire, as well as testing a sample of disbursements to determine if the department has properly processed and accounted for its transactions.

For departments that are placed in Post-Audit status, the Division states they perform periodic reviews to ensure the department should remain in Post-Audit status or whether it should be returned to Pre-Audit status. However, the Division has no written policies or procedures over the Post-Audit process that state how often they plan to perform periodic reviews.

There were sixteen departments in Post-Audit status as of July 1998. However, only one had a Post-Audit report issued during the 1998 fiscal year and two other departments had reports in progress at that time. Although recent sample testwork had been performed on the other thirteen departments, no reports were in progress or had been issued. The report is the method used by the Division of Accounts to document their decision regarding a department's Post-Audit status.

One department was notified in March 1993 that they would remain in Post-Audit status, but the department needed to improve their disbursement process and correct the signature authorization and segregation of duties problems. In July 1996, the Division of Accounts performed another Post-Audit review of this department. The Division of Accounts found many of the same problems that were noted in the 1993 review. However, the department was allowed to remain in Post-Audit status and told that another review would be performed in September 1996. The Division of Accounts told the department they would need to make significant improvements to remain in Post-audit status after the September review. The Division of Accounts did not perform the review until July 1998 and the report for this review was not available at the time of the audit.

When a department is in Post-Audit status, their expenditures are not subject to the same controls as the agencies in Pre-Audit status. If the department mentioned above had been on Pre-Audit status, the Division of Accounts may not have processed the documents with many of the errors noted until they were corrected. However, these transactions were processed with the errors because they did not go through the Pre-Audit process. Without timely completion of Post-Audit reports and proper follow-up of the Post-Audit recommendations, the Division of Accounts has little assurance that transactions for departments in Post-Audit status are being properly processed.

Recommendation

The Division of Accounts should develop written policies and procedures that address how often they plan to perform Post Audit reviews of the departments. In addition, management should prepare timely reports for all Post-Audit reviews performed.

Management's Comment

We concur. The Division has addressed the timeliness of reporting problem strategically by moving some responsibilities to a new section. Timeliness was affected by staff turnover and the resulting difficulty of finding qualified accountants willing to work within our pay scale. The division allocated the remaining resources to critical regulatory compliance issues such as federal 1099 reporting, the state's comprehensive annual financial reporting, and preparation of the schedules of grant activity required by the federal government. The responsibility for accurate and timely processing of accounting entries does not rest solely upon the Division of Accounts. As required by *Tennessee Code Annotated*, Section 9-18-102, each agency must accept responsibility for establishing and maintaining adequate accounting and administrative systems to assure that transactions are being properly processed. Guidelines for the timing of reviews will be established.

Finding Number	98-CAFR-07
CFDA Number	Various
Program Name	Various
Federal Agency	Various
State Agency	Department of Finance and Administration
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

Signature Authorization Procedures Are Not Adequate

Finding

The Division of Accounts has not maintained complete and accurate signature authorization forms for each state department. Each state agency is required to submit a signature authorization form covering each of its allotment codes. The form documents the signatures of employees authorized to sign for the department head and budget/fiscal officer. Division of Accounts' employees use these forms to ensure transactions are properly approved before they are processed for payment.

The most recent Division of Accounts memorandum requesting signature authorization forms from each department stated:

> The upper right corner section of the signature authorization form identifies the administering agency allotment code and the agency division codes covered by the authorization form. These codes are important and should be completed carefully to insure only those authorized personnel are allowed to sign the appropriate accounting documents in each division.
>
> Complete a new signature authorization form at the beginning of each fiscal year for all personnel authorized to sign the fiscal officer and department head signatures on all accounting documents. ...The original signatures of the fiscal officer and the department head must appear in the designated space at the bottom of the signature authorization form to validate the authorized signatures. ...If changes occur in those personnel authorized to sign for the fiscal officer or the department head during the year, complete a new signature authorization form to replace the existing form on file in the [Division of Accounts].

The Division of Accounts has not ensured that signature authorization forms are received and updated by the departments when necessary. The Division of Accounts has not required each department to submit new forms at the beginning of each fiscal year. In addition, the Division has accepted improperly completed forms from the departments.

A review of 104 signature authorization forms on file was performed and the following errors were noted:

- Forty-three forms (41%) were not signed by the actual department head. Forty-one of the forms had a name other than the name of the department head in the designated space on the form and two of the forms were signed by a designee and initialed.

- Forty-two forms (40%) were not completed correctly. For example, people authorized to sign for the department head and fiscal/budget officer were to show their signature of the department head and/or fiscal/budget officer with their initials. However, they would sign their own name or they would sign a name of someone other than the department head or fiscal/budget officer.
- Thirty-six forms (35%) had a name other than the name of the actual budget/fiscal officer in the designated space on the form.

In addition, nine of 50 supplemental payroll transactions exceeding $10,000 (18%) were processed by the statewide Payroll Division, but were not properly approved at the departments. They were signed by an employee without authorization to sign for the department head. Also, eight of these 50 payroll transactions (16%) were not properly approved by the budget/fiscal officer in accordance with the signature authorization form. The payroll officer approved the transactions. The Division of Accounts does not require a different signature authorization form for payroll transactions, but uses the same form used for other fiscal transactions.

Furthermore, the department has not adequately administered the signature authorization process in relation to the Department of Mental Health and Mental Retardation (DMHMR). Signature authorization forms for the state's developmental centers still showed DMHMR officials as the department head and budget/fiscal officer. However, the developmental centers were moved by executive order from DMHMR to the Department of Finance and Administration on February 17, 1996, (Executive Order 9-Arlington) and October 14, 1996 (Executive Order 10-all others). In addition, the Division of Accounts has allowed forms for the developmental centers, the mental health institutes, and the correctional facilities to vary from the regular format. The Division has allowed the facility superintendents and facility fiscal officers to sign as the actual department head and fiscal officer.

Neither the Commissioner of Finance and Administration nor the budget/fiscal officer signed the Department of Finance and Administration's signature authorization forms for the Insurance Administration Division. The Division of Accounts authorization forms were not signed by the Commissioner of Finance and Administration. In addition, the designated employees did not always sign the name of the department head or fiscal director with their initials, but instead signed either their own names or another department employee's name for the department head.

Current signature authorization forms have not been maintained and used properly by the Division of Accounts. Although each department may have submitted a correct form at one time, many forms were no longer current because some of the employees listed had either changed positions or departments, or even terminated their employment with state government. Twenty-four of 52 agencies (46.2%) have one or more forms that have not been updated in more than one year.

Without using current and correct signature authorization forms, the Division of Accounts cannot ensure all transactions are being properly approved at the departments before they are sent to Accounts for processing.

Recommendation

The Division of Accounts should implement controls to ensure properly completed signature authorization forms are submitted at least annually for each department before processing a department's transactions. Management should also consider whether to require separate forms for payroll transactions since these transactions need to be approved by the payroll officer instead of the fiscal/budget officer.

Management's Comment

We concur. The Division of Accounts is currently revising the authorization form in ways to make it simpler for the preparer to complete and easier to understand management's intent. The Division of Accounts requested updated authorization forms during each annual accounting meeting except for the 1998 meeting. The reason the forms were not addressed at the 1998 meeting was because the auditors had raised questions about the content of the forms. The signature authorization form is not regulation nor is it state law. No commissioner or agency head can shirk his/her ultimate responsibility for the business conducted within his/her department. Departmental management decides who is authorized to sign forms that ultimately result in accounting transactions. Division of Accounts' concern is that the paperwork be completed and reviewed by a person who is knowledgeable about the transaction and related accounting classification information so that it can process an approved, accurate transaction. Upon revising the form, the Division of Accounts will establish another routine method for renewing the forms' information to more clearly reflect management's intent.

Finding Number	98-CAFR-08
CFDA Number	Various
Program Name	Various
Federal Agency	Various
State Agency	Department of Finance and Administration
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

All STARS Program Changes Were Not Properly Approved

Finding

Two of 10 State of Tennessee Accounting and Reporting System (STARS) program changes made (20%) did not have proper management authorization or approval. These program changes were initiated by staff in the Information Systems Management (ISM) division. Normally, the department uses a program change request to document the change and approval of the request. However, for these two program changes, no request form was completed. The request form requires approval of the test results, as well as endorsement by user management. Since the form was not completed, the approval of the program change was not properly documented.

Without a proper program change approval process, programs could be modified and changed without management's knowledge resulting in a system that does not meet user needs and stated objectives.

Recommendation

The Director of Information Systems Management should ensure all program change requests are initiated only upon written request and approved in writing before program changes are made.

Management's Comment

We concur. We will take the necessary steps to ensure that all program change requests are properly initiated and approved.

Finding Number	98-CAFR-09
CFDA Number	N/A
Program Name	N/A
Federal Agency	N/A
State Agency	Department of Finance and Administration
Grant/Contract No.	N/A
Finding Type	Reportable Condition
Questioned Costs	None

The Tennessee Insurance System has significant problems which have caused TIS and STARS not to reconcile

Finding

As noted in two prior audits, the Tennessee Insurance System (TIS) has not been designed, implemented, and maintained in a manner which allows it to function efficiently and effectively. As a result, the system is not producing the desired results and changes are being made directly to the TIS database through the Application Development Facility (ADF). Because these changes are not being made to the insurance accounting on the State of Tennessee Accounting and Reporting System (STARS), TIS and STARS do not reconcile. Management responded to the prior audit finding and stated that the Division of Insurance:

- had transferred the duties of balancing TIS to STARS from the Division of Accounts to the Division of Insurance,
- had established three work groups to address reengineering the information systems and focus on balancing TIS to STARS,
- had developed a priority list for TIS enhancements, which is reviewed and updated weekly instead of monthly and included high priority items on the Department of Finance and Administration's Annual System Plan, and
- was monitoring and tracking changes made through the Application Development Facility (ADF) for the purpose of reducing the number to zero. In March 1998, the division moved into production a COBRA 18^{th} month eligibility programming change that would eliminate five to ten ADF changes per month,
- was evaluating several options to improve the process for correcting the TIS database including a change in the base design and language of TIS. Also, the division was evaluating custom programs, which would allow TIS to be corrected via appropriate updates leaving appropriate audit trails.

Management also stated that due to the complexities of the systems involved, they did not expect that the actions described above would resolve all reconciliation problems within the next twelve months. However, they stated they were committed to providing both immediate and long-term resources required to implement corrective action.

The first four items mentioned appear to have been done by management while the fifth one appears to be in process. Although management has taken four of the five steps indicated in their prior comments, the same basic problems with TIS were still noted in the current audit.

Because of the many problems with TIS, numerous program changes are needed. Program change requests are maintained on a System Information Request Log (SIRLOG), which shows the system problem, date of change request, and priority of the item. As these problems are researched and corrected through program changes or other measures, they are cleared from the log. However, the current year log included 4 of 19 items (21%) carried over from the prior year.

Furthermore, the division is still using Application Development Facility (ADF), a software program, to manually adjust participants' accounts on TIS. These adjustments to participants' accounts are made directly in the TIS database rather than through transactions, an approach the Division of Insurance Administration (DIA) called "going through the back door" of the system. The system's security must be overridden in order for an ADF change to be made. The division sends a request for the ADF change to the department's Information Systems Management (ISM) group, which in turn submits a request to the Office for Information Resources (OIR). OIR assigns one of its employees to make the ADF changes on the TIS database. As noted in the prior audit, overriding system security to make manual adjustments is a significant deficiency in the design and operation of the system.

The Division of Insurance Administration uses ADF as a "quick fix" to correct participant balances or errors attributable to unresolved system problems. Although division staff maintain paper documentation of the ADF changes, the system has no history or record of the changes because they simply overwrite previous information in the database. If the system had been designed and was functioning properly, use of ADF would not be necessary. As previously noted, making changes directly to a database instead of correcting errors through properly authorized and documented transactions circumvents system controls.

In addition, when the TIS database is corrected using ADF, STARS is not updated concurrently. As a result, the two systems do not agree, nor can they be completely reconciled. Management concurred with the prior finding, stating that new procedures were being implemented but would not resolve all the reconciliation problems within the next twelve months. A new employee was hired in September 1997 to work on the reconciliation problem. This employee has been tracking the unreconciled amounts and reports to the TIS system information staff and is a part of a work group that was established to focus on the reconciliation issue. This work group has reviewed the TIS program change request log and changed the priority of the issues on the log. In addition, the department has included TIS issues in its three year reengineering plan. These steps should help the department address the problems with TIS; however, TIS and STARS still do not reconcile. The auditors noted unreconciled amounts between the net change in the TIS database and the cumulative accounting transactions passed from TIS to STARS daily during fiscal year 1998 ranged from $79.00 to $84,676.41, with an average unreconciled amount of $32,099.17 for the twenty days reviewed.

"Certification" of insurance is an example of an accounting transaction that caused reconciliation problems. Certification occurs at month-end when employees' insurance premiums collected during the month are moved from the deferred revenue account into the revenue account. Funds that cannot be identified are considered "uncertified" amounts. We attempted to reconcile total collections according to TIS, taking into consideration the uncertified amounts, with revenue recorded in STARS. The result was a $43,376.71 unexplained difference. In addition, management noted on the July 15, 1998, System Information Request Log that collections applied and collections certified were out of balance as much as $200,000 to $400,000 per month.

Departmental memorandums state that the TIS database is correct but the accounting information on STARS is incorrect. Although STARS has been corrected to the extent possible, there can be no assurance all needed corrections have been made since not all ADF changes made to TIS were made on STARS and TIS does not maintain history records of all past transactions. We performed analytical reviews and other measures at year-end to ensure the insurance funds' financial statements presented in the state's Comprehensive Annual Financial Report were fairly stated. These additional procedures would not have been necessary had all TIS activity been properly reflected on STARS.

Recommendation

The Commissioner should require the Director of Insurance Administration to develop plans of action to ensure that all TIS system problems are corrected as soon as possible. The Director of Insurance Administration should ensure that the work group makes timely changes to correct the many TIS problems. Old items on the Systems Information Request Log (SIRLOG) should be corrected and cleared from the log. As the system problems are corrected, the use of ADF changes should be minimized and, if possible, eventually eliminated. Until that time, STARS should be concurrently updated as ADF changes are made to TIS. In addition, the work group should continue to meet until all the problems causing the unreconciled amounts are resolved and TIS and STARS can be reconciled. As problems arise in the future, causes of the problems should be quickly identified and TIS should be corrected through program changes or other appropriate means.

Management's Comment

We concur. As noted in the finding, the department is committed to resolving the problems with TIS. Also, as noted, there are no quick fixes for the system problems. Through on-going maintenance we have resolved or minimized some of the issues and we are prepared to begin a major re-engineering effort of the system in FY 2000. Management will closely monitor the progress and the projected completion date.

Finding Number	98-CAFR-10
CFDA Number	Various
Program Name	Various
Federal Agency	Various
State Agency	Department of Finance and Administration
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

Office for Information Resources procedures for billing for dedicated equipment are inadequate

Finding

The Office for Information Resources (OIR) provides computer and telecommunication services and hardware to state departments and bills agencies for services provided statewide and for dedicated equipment which is for a specific agency's use. The rates charged by OIR for dedicated equipment should cover cost which includes an administrative fee. OIR has not been reviewing the cost versus recovery information for the dedicated equipment billings which has allowed agencies to be billed in excess of costs for dedicated equipment.

Of the 134 dedicated equipment cost centers reviewed, 34 (25%) had billings that resulted in over- or underbillings. Twenty of the cost centers (15%) had overbillings and 14 (10%) had underbillings. A number of these agencies receive federal funding and may have passed these under/overbillings to the federal government.

If billings are not accurate for dedicated equipment, state departments will not pay their proportionate share of the costs. Some would pay too much, while others would not pay enough for specific services and hardware.

Recommendation

The Chief of OIR should establish procedures to ensure revenues for each dedicated equipment cost center are properly matched against expenses.

Management's Comment

We concur. Timely close out for all dedicated equipment cost centers will be completed in the future.

Finding Number	98-CAFR-11
CFDA Number	Various
Program Name	Various
Federal Agency	Various
State Agency	Department of Finance and Administration
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

Inventory tagging and billing procedures
in the Office for Information Resources were not adequate

Finding

Office for Information Resources' (OIR) equipment was surplused during the fiscal year but not promptly taken off the inventory records. OIR used improper tag numbers on this equipment which resulted in computer upgrades and software remaining on the equipment listing after they had been surplused with the upgraded equipment. Also, OIR wrote off additional items that were add-ons to equipment previously surplused. Adjustments were made to the equipment records to correct the balances before the financial statements were prepared.

Much of the equipment OIR purchases is used at other departments which pay OIR for the use of the equipment. When a department no longer needs a piece of equipment, it submits a Request for Service (RFS) instructing OIR to pick up the equipment and stop the billing. A review of RFSs disclosed the following weaknesses:

a. For 18 of 25 RFSs tested (72%), OIR billed agencies for more than 30 days after equipment was removed from the agencies by OIR personnel. The billings continued for 48 days to approximately 12 months.

b. For 20 of 25 RFSs tested (80%), the Property of the State of Tennessee (POST) system had not been updated within 30 days to indicate changes in the equipment's location. The delays ranged from 41 days to approximately 15 months.

When proper equipment records are not maintained, the probability increases that equipment will be lost or stolen and not be detected. If proper follow-up is not made when an RFS is completed, leasing agencies will be improperly charged for equipment they no longer have.

Recommendation

The Assistant Commissioner of Administration should ensure that appropriate inventory procedures are established and communicated to the agencies which are leasing the equipment, so OIR can make timely changes to the equipment and billing records. This should result in missing equipment being detected more promptly. If a piece of equipment is not found, Internal Audit and the Comptroller's office should be promptly notified; and the records in POST updated. As upgrades and software are added to equipment, POST records should be updated to include information about these add-ons.

The Assistant Commissioner for OIR should ensure that billings for equipment usage are stopped after an RFS is completed and that the records in POST are updated promptly. Each RFS should be tracked to ensure that the property records are updated timely and to ensure that the billings are correct.

Management's Comment

We concur that timely changes should be made to the inventory and billing records. It is the responsibility of F&A's fiscal office to facilitate an annual inventory of all OIR equipment, both internal use and leased. We have improved our inventory process for this fiscal year by providing training on the inventory procedures to OIR and other department's staff that lease equipment from OIR. Currently the number of items inventoried is improved over previous years. We are continuing to pursue items not inventoried with the appropriate departments.

Depending on the type of equipment/service, the appropriate staff from OIR is responsible for completing the RFS which includes updating the billing and inventory system. Department's leasing equipment from OIR are billed monthly for OIR equipment and services. Any billing discrepancies noted by a department will be corrected.

State of Tennessee
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 1998
(continued)

Section III—Federal Award Findings and Questioned Costs

Finding Number	98-DES-01
CFDA Number	17.207, 17.801, 17.804
Program Name	Employment Services Cluster
Federal Agency	Department of Labor
State Agency	Department of Employment Security
Grant/Contract No.	2058
Finding Type	Cash Management
Questioned Costs	None

The department did not comply with cash management objectives

Finding

The Department of Employment Security's cash drawdown method did not comply with the cash management requirements of Office of Management and Budget Circular A-102 and U.S. Department of Treasury regulations. Part 31, Section 205.20 of the Code of Federal Regulations states that the timing and amount of cash advances shall be as close as is administratively feasible to the actual cash outlay by the state.

Treasury regulations, which implement the Cash Management Improvement Act (CMIA), require state recipients to enter into agreements prescribing specific methods of drawing down federal funds for selected programs. The cash management agreement between the State of Tennessee and the U.S. Department of Treasury calls for Unemployment Insurance Administrative Costs to be drawn so that the department receives one-sixth of the quarterly administrative allowance for every pay period. This drawdown method was based on the assumption that the department would disburse the entire pro rata amount of its allowance each pay period. The Department of Employment Security complied with the method of drawing and receiving funds; however, it did not disburse all of the funds received in a timely manner. As a result, the department had accumulated unspent federal funds of $5,614,690.50 at June 30, 1998. Although the contractual provisions of the cash management agreement were followed, the objectives of the cash management requirements were not accomplished.

Recommendation

The drawdown provisions for the Unemployment Insurance Administrative Costs in the cash management agreement between the U.S. Department of Treasury and the State of Tennessee should be amended to ensure that the timing and amount of drawdowns are based on actual cash outlays, rather than on a fixed percentage of the administrative allowance.

Management's Comment

We concur with your audit finding for the year ended June 30, 1998, that the department did not comply with cash management objectives. As stated in your finding, although the contractual provisions of the cash management agreement were followed, the objectives of the cash management requirements were not accomplished.

As of January 1, 1999, the CMIA agreement has been amended to reflect a change in the method of drawing down federal funds from a technique of Fixed Administrative Allowance (Semi-Monthly-Quarterly Administrative Allowance) to one of Cost Allocation (Actual Costs-Estimated Allocation – Semi-Monthly). This will result in the drawdown of actual costs from federal cost accounting system on a monthly basis.

Finding Number	98-DES-01
CFDA Number	17.225
Program Name	Unemployment Insurance
Federal Agency	Department of Labor
State Agency	Department of Employment Security
Grant/Contract No.	2108, 2109
Finding Type	Cash Management
Questioned Costs	None

The department did not comply with cash management objectives

Finding

The Department of Employment Security's cash drawdown method did not comply with the cash management requirements of Office of Management and Budget Circular A-102 and U.S. Department of Treasury regulations. Part 31, Section 205.20 of the Code of Federal Regulations states that the timing and amount of cash advances shall be as close as is administratively feasible to the actual cash outlay by the state.

Treasury regulations, which implement the Cash Management Improvement Act (CMIA), require state recipients to enter into agreements prescribing specific methods of drawing down federal funds for selected programs. The cash management agreement between the State of Tennessee and the U.S. Department of Treasury calls for Unemployment Insurance Administrative Costs to be drawn so that the department receives one-sixth of the quarterly administrative allowance for every pay period. This drawdown method was based on the assumption that the department would disburse the entire pro rata amount of its allowance each pay period. The Department of Employment Security complied with the method of drawing and receiving funds; however, it did not disburse all of the funds received in a timely manner. As a result, the department had accumulated unspent federal funds of $5,614,690.50 at June 30, 1998. Although the contractual provisions of the cash management agreement were followed, the objectives of the cash management requirements were not accomplished.

Recommendation

The drawdown provisions for the Unemployment Insurance Administrative Costs in the cash management agreement between the U.S. Department of Treasury and the State of Tennessee should be amended to ensure that the timing and amount of drawdowns are based on actual cash outlays, rather than on a fixed percentage of the administrative allowance.

Management's Comment

We concur with your audit finding for the year ended June 30, 1998, that the department did not comply with cash management objectives. As stated in your finding, although the contractual provisions of the cash management agreement were followed, the objectives of the cash management requirements were not accomplished.

As of January 1, 1999, the CMIA agreement has been amended to reflect a change in the method of drawing down federal funds from a technique of Fixed Administrative Allowance (Semi-Monthly-Quarterly Administrative Allowance) to one of Cost Allocation (Actual Costs-Estimated Allocation -

Semi-Monthly). This will result in the drawdown of actual costs from federal cost accounting system on a monthly basis.

Finding Number	98-DOT-01
CFDA Number	20.106
Program Name	Airport Improvement Program
Federal Agency	Department of Transportation
State Agency	Department of Transportation
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

The Department of Transportation did not monitor the non-major airports' compliance with the revenue diversion requirement

Finding

Section 511(a)(12) of the Airport and Airways Improvement Act of 1982 requires that all revenues generated by a public airport be expended for the capital or operating costs of the airport, the local airport system, or other local facilities which are owned or operated by the owner or operator of the airport and are directly and substantially related to the actual air transportation of passengers or property. This requirement is referred to as "revenue diversion."

The State of Tennessee has approximately 83 airports. These airports include major and non-major airports. The six major airports in Tennessee are Memphis International, McKellar-Sipes Regional (Jackson), Nashville International, Lovell Field (Chattanooga), McGhee Tyson (Knoxville), and Tri-Cities Regional (Blountville). The remaining 77 airports in Tennessee are non-major.

According to a Memorandum of Agreement between the Federal Aviation Administration (FAA) and the Department of Transportation, the FAA will deal directly with the six major airports in Tennessee concerning compliance with the revenue diversion requirement and the department will be responsible for the remaining airports. However, based on discussions with the department's personnel, the department is not monitoring and evaluating the non-major airports' adherence to the revenue diversion requirement.

Recommendation

The department should develop policies and procedures to monitor and evaluate the non-major airports' compliance with the revenue diversion requirement.

Management's Comment

We concur. However, it should be noted that prior to October 1997, the Federal Aviation Administration (FAA) was responsible for ensuring compliance with the 37 federal grant assurances as outlined in the terms and conditions of accepting airport improvement program grants. This document contains the terms and conditions of accepting Airport Improvement Program grants from the FAA for the purposes of carrying out the provisions of Title 49, United States Code. The revenue diversion requirement is included in this document. In October 1997, the state received a block grant to be used for airport improvement programs at airports throughout the state. At that time, a Memorandum of Agreement was executed between the FAA and the Department of Transportation, Aeronautics Division, which gave the division responsibility for ensuring compliance by non-major airports with the 37 federal grant assurances. Guidance provided the division by the FAA indicated that the FAA used third-party complaints to monitor compliance with the revenue diversion requirements.

However, in light of the advent of Policy 22 related to subrecipient monitoring, we agree that the former practice of relying on third-party complaints to ensure compliance is not sufficient. The external audit section is working closely with the Aeronautics Division to develop procedures that will guarantee the proper monitoring of non-major airports as it relates to the revenue diversion requirement.

Finding Number	98-DOE-02
CFDA Number	84.002
Program Name	Adult Education - State Grant Program
Federal Agency	Department of Education
State Agency	Department of Education
Grant/Contract No.	6TA-ABL/V002A50043
Finding Type	Allowable Costs/Cost Principles
Questioned Costs	$70,728.00

The Division of Adult and Community Education overspent programs of instruction (9-12) for fiscal year 1996

Finding

The Division of Adult and Community Education overspent the amount of federal funds permitted for Programs of Instruction (9-12). A review of the final Financial Status Report for fiscal year 1996 indicates that the division reported expenditures of $1,286,028, which represents 21.2% of the grant award. *Code of Federal Regulations*, Title 34, Section 461.10, requires that a maximum of 20% be spent on programs for students trying to pass the General Equivalency Degree (GED). To comply with the federal regulations, the division should have spent no more than $1,215,300. The difference of $70,728 will be questioned.

Recommendation

The department should ensure that spending levels are met for grants. Minimum and maximum spending limits should be monitored during the grant period to ensure that regulations are followed. If grant amounts are amended, the appropriate steps should be taken to amend the affected programs' budgeted or appropriated limits.

Management's Comment

The department concurs with the recommendation that minimum and maximum spending limits should be monitored during the grant period to ensure that regulations are followed. The department has implemented improved fiscal accountability measures for this program. In addition, under the recent reauthorization of this program by Congress, many of the minimum and maximum spending limits have been eliminated.

The department does not concur with the cited questioned cost of $70,728. Subsequent to the filing of the final *Financial Status Report* and the audit field work, one of the larger subrecipients of funds refiled its quarterly invoices for the year in question, showing a reduction from $77,081.17 to zero in expenditures from federal funds for the "Instruction 9-12" category and a corresponding increase in federal expenditures for the "Instruction 0-8" category. According to the subrecipient's program personnel, based upon a reinspection of the nature of the subrecipient's program, all monies expended by the subrecipient can be classified as being spent on services designed for low literate and functionally illiterate adults. This change in reporting reduces statewide federal expenditures for "Instruction 9-12" by $77,081.77, which is more than enough to offset the questioned cost of $70,728.

In addition, under program regulations, recipients are allowed to spend up to 5% of the grant award for state administration. If recipients spend less than 5% for state administration, the additional funds that could have been spent for administration can be spent in other program categories. For the grant in question, the department underspent $54,040 in state administration. Since these funds could have been spent for direct programs services, the department can apply the $54,040 to the "Instruction 9-12" category, which would reduce the questioned cost.

The subrecipient cited above could also have counted up to $23,200.44 of its local match as being applied to the "Instruction 9-12" category and reallocated federal funding originally reported as having been expended for this category to other program categories. This would have been allowable because, as noted in the U.S. Department of Education's *A-133 Compliance Supplement*, there are no "supplement not supplant" or "earmarking" requirements at the subrecipient level. The cumulative effect statewide of reallocating the funding source to local funds for the "Instruction 9-12" category would reduce the questioned cost to zero.

Finding Number	98-DOE-03
CFDA Number	84.002
Program Name	Adult Education - State Grant Program
Federal Agency	Department of Education
State Agency	Department of Education
Grant/Contract No.	6TA-ABT/V002A50043
Finding Type	Allowable Costs/Cost Principles
Questioned Costs	$228,870.00

The Division of Adult and Community Education underspent Section 353 funds for fiscal year 1996

Finding

The Division of Adult and Community Education underspent the amount of federal funds permitted for Section 353. A review of the final Financial Status Report for fiscal year 1996 indicates that the division reported training expenditures of $455,054, which represents 7.5% of the grant award, special projects expenditures of $227,551 which represents 3.7% of the grant award, and total expenditures for these areas of $682,605, which represents 11.2% of the grant award. *Code of Federal Regulations*, Title 34, Section 461.33, requires that a minimum of 15% of the grant award be spent on special projects and training with at least 10% spent on training. The other 5% may be spent on special projects, training, or both. To comply with the federal regulations, the division should have spent at least $911,475 on Section 353. The difference of $228,870 will be questioned.

Recommendation

The department should ensure that spending levels are met for grants. Minimum and maximum spending limits should be monitored during the grant period to ensure that regulations are followed. If grant amounts are amended, the appropriate steps should be taken to change the affected programs' budgeted or appropriated limits.

Management's Comment

The department concurs with the recommendation that minimum and maximum spending limits should be monitored during the grant period to ensure that regulations are followed. The department has implemented improved fiscal accountability measures for this program. In addition, under the recent reauthorization of this program by Congress, many of the minimum and maximum spending limits have been eliminated.

The department does not concur with the questioned cost cited of $228,870. As noted in previous findings related to this program in audit reports for prior years, the department has experienced difficulties in providing the detailed level of grant accounting necessary to accurately complete the *Financial Status Report*. Specifically, grants and subgrants were being coded to prior fiscal years regardless of contract number. While this has been corrected for more recent program years, starting with 1997, it had not been for the year that is the subject of this finding. In fact, it appears that the under-spending for 1996 can be attributed to the corrective action taken in 1997, which caused an end to the practice of coding grants and subgrants to prior fiscal years regardless of contract number. Thus, fewer grants and subgrants were charged to 1996 than would normally have been the case if the corrective action procedures had not been implemented.

Because of the prior reporting problem, the department believes that to substantiate compliance, expenditures for Section 353 must be viewed over a multi-year period. To provide such an overview, the department has developed the following table:

Year	Grant Amount	Required Expenditures	Actual Expenditures	Actual over Required
1994	$ 5,958,003.45	$ 893,700.52	$1,008,407.58	$ 114,707.06
1995	6,112,527.15	916,879.07	1,101,400.81	184,521.74
1996	6,051,837.73	907,775.66	686,104.30	(221,671.36)
1997	5,939,743.71	890,961.56	939,371.67	48,410.11
Total	$24,062,112.04	$3,609,316.81	$3,735,284.36	$125,967.55

This table shows that although the State underspent in Section 353 during the 1996 year, more funds were spent for Section 353 during the two preceding and the succeeding year than was required. Over the four-year period, Tennessee spent $125,967.55 more than required. Based on the analysis presented above, the department believes it has substantively complied with the requirements and that no funds are due back to the Federal government.

Finding Number	98-DOE-01
CFDA Number	84.027, 84.173
Program Name	Special Education Cluster
Federal Agency	Department of Education
State Agency	Department of Education
Grant/Contract No.	6LL-AAX and 6LL-ACX/H027A50052
Finding Type	Period of Availability of Funds
Questioned Costs	$15,595.47

The Division of Special Education spent funds outside the period of availability

Finding

The Division of Special Education charged expenditures that were not obligated within the period of availability to the fiscal year 1996 Special Education – Grants to States program. The period of availability for this program was from July 1, 1995, through September 30, 1997. Seven reallocation journal vouchers and 96 expenditure transactions were posted to this program after September 30, 1997. A review of these documents revealed that one reallocation journal voucher and two expenditure transactions were not obligated prior to September 30, 1997. The reallocation journal voucher covered salaries and benefits for the period July 1, 1997, through December 15, 1997. Salaries and benefits totaling $13,986.20 were obligated after September 30, 1997. The two expenditure transactions were for travel costs totaling $1,609.27 that were incurred during the period November 3, 1997, through March 31, 1998. Total costs of $15,595.47 will be questioned.

Period of availability of funds as defined by the *United States Code*, Title 20, Chapter 31, section 1225(b)(1), allows funds to be carried forward to the next fiscal year for obligation and expenditure if not spent during the original grant period.

Recommendation

The department should closely examine dates of services when assigning expenditures to grants to ensure that the grant funds are still applicable. If expenditures' dates are not readily apparent, or there are questions about the dates, then supporting data should be obtained from the source.

Management's Comment

We concur. When reallocation journal vouchers and expenditure transactions were being prepared as part of the closing process at September 30, 1997, one reallocation journal voucher and two expenditure transactions were improperly included. The questioned costs will be returned and greater care will be taken in the future to ensure that this does not happen again.

Finding Number	98-APS-01
CFDA Number	84.063
Program Name	Federal Pell Grant Program
Federal Agency	Department of Education
State Agency	Austin Peay State University
Grant/Contract No.	E-P063P76150
Finding Type	Reportable Condition
Questioned Costs	None

The university had no procedure for recalculating Pell awardswhen students did not begin attending some of their classes

Finding

As stated in the prior audit, the student financial aid office had no procedure in place to determine whether Pell recipients began attending some classes. The unofficial withdrawal of student financial aid recipients from all classes was monitored; however, this monitoring would not detect those who failed to begin attending a portion of their classes and would not signal the need to recalculate the Federal Pell Grant awards to those students. The Federal Student Financial Aid Handbook, chapter 4, page 64, states that "if the student does not begin attendance in all of his or her classes, the school must recalculate the student's [Pell] award based on the lower enrollment status."

The absence of a procedure to determine if a Pell recipient has failed to begin attending some, but not all, classes could result in an overaward to some recipients. Procedures were developed for implementation in the fall of 1998.

Recommendation

The Director of Student Financial Aid should ensure the procedures developed to determine if Pell recipients begin attending all classes are implemented and continuously applied. Pell awards should be recalculated whenever a student fails to begin attending any class.

Management's Comment

Management concurs with the finding and recommendation. An attendance reporting procedure was implemented beginning Fall 1998. Faculty report whether students began attendance with a FN grade (failure because they never attended) or a FA grade (failure because the student has stopped attending). Student awards are recalculated as needed and if appropriate they are billed. Pell awards will continue to be recalculated and the Pell award revised as needed.

Finding Number	98-TSU-02
CFDA Number	84.063
Program Name	Federal Pell Grant Program
Federal Agency	Department of Education
State Agency	Tennessee State University
Grant/Contract No.	E-P063P976282
Finding Type	Eligibility
Questioned Costs	$275.00

Student financial assistance was awarded to an ineligible student

Finding

One of 60 students whose eligibility was tested (1.7%) did not meet the eligibility requirements. The student's award was $275, which represented .0058% of the $47,450 tested. Total Federal Pell Grants for the year were $6,309,185.50.

The *Federal Student Financial Aid Handbook* states that "a person generally is not eligible for SFA [student financial aid] funds if he or she is in default on an SFA loan or must repay an SFA grant." This student was in default on a loan, but she still received her Federal Pell Grant.

Recommendation

The Director of Financial Aid should ensure that counselors check each student's former loan status, and flag the accounts of students who are in default as ineligible for federal financial aid.

Management's Comment

We concur. The university has repaid the $275 Pell Grant to the U. S. Department of Education.

Finding Number	98-UTK-01
CFDA Number	84.063
Program Name	Federal Pell Grant Program
Federal Agency	Department of Education
State Agency	University of Tennessee
Grant/Contract No.	E-P063P76293
Finding Type	Reportable Condition
Questioned Costs	None

Pell awards are not recalculated when students do not begin attendance in some of their classes

Finding

The University of Tennessee at Knoxville does not recalculate Federal Pell Grant awards to students who fail to begin attendance in all of their classes. Recalculations do not occur because the student financial aid office does not have a procedure in place to determine if Pell recipients do not begin attendance in all of their classes. The *Federal Student Financial Aid Handbook*, chapter 4 , page 66, states, "If the student does not begin attendance in all of his or her classes, the school must recalculate the student's [Pell] award based on the lower enrollment status."

The absence of a procedure to determine if a Pell recipient has failed to begin attendance in some, but not all, classes could result in an overaward to some recipients.

Recommendation

The Director of Financial Aid should develop and implement a procedure to determine if Pell recipients begin attendance in all classes. Pell awards should be recalculated whenever a student fails to begin attendance.

Management's Comment

The University concurs with the finding. For the Knoxville campus beginning Fall semester 1999, attendance at the first day of class will be reported, and a second verification of attendance will be made on the corrected 14 day class rolls. At the end of the semester, a final check on student attendance will be made with the grade of FX, which is available for faculty to use on grade reports to identify students who never attended class.

Finding Number	98-UTH-01
CFDA Number	84.063
Program Name	Federal Pell Grant Program
Federal Agency	Department of Education
State Agency	University of Tennessee
Grant/Contract No.	E-P063P986295
Finding Type	Reportable Condition
Questioned Costs	None

Pell awards at Memphis are not recalculated when students do not begin attendance in some of their classes

Finding

The University of Tennessee at Memphis does not recalculate Federal Pell Grant awards to students who fail to begin attendance in some of their classes. Recalculations do not occur because the student financial aid office does not have a procedure in place to determine if Pell recipients do not begin attendance in some classes. The unofficial withdrawal of student financial aid recipients from all classes is monitored; however, those who fail to begin attendance in a portion of their classes are not detected through this procedure. The *1997-1998 Student Financial Aid Handbook*, Chapter 4, page 66, states, "If the student does not begin attendance in all of his or her classes, the school must recalculate the student's [Pell] award based on the lower enrollment status."

The absence of a procedure to determine if a Pell recipient has failed to begin attendance in some, but not all, classes could result in an overaward to some recipients.

Recommendation

The Director of Financial Aid should develop and implement a procedure to determine if Pell recipients begin attendance in all classes. Pell awards should be recalculated whenever a student fails to begin attendance in any classes.

Management's Comment

The University concurs with the finding. The Memphis campus financial aid office has developed a process in which each Pell recipient will be given a document at the beginning of the semester which will record the instructor's certification that the Pell recipients began attending each class. Financial aid already has a module in the financial aid system which can produce, track and follow up the certification process. By using this process financial aid expects to be able to recalculate awards more readily.

Finding Number	98-TSU-01
CFDA Number	84.007, 84.038, 84.063, 84.268
Program Name	Student Financial Assistance Cluster
Federal Agency	Department of Education
State Agency	Tennessee State University
Grant/Contract No.	Various
Finding Type	Reportable Condition, Special Tests and Provisions
Questioned Costs	$3,600 (plus $44 due to student)

Some refunds due student financial assistance programs were not calculated correctly

Finding

The university is required to refund a portion of financial aid to applicable financial assistance programs when students receiving such funds withdraw from the university. Some of the refunds due Title IV student financial assistance programs—the Federal Pell Grant, Federal Supplemental Educational Opportunity Grant, Federal Perkins Loan, and Federal Direct Student Loan programs— were not calculated correctly. Six of 16 sample refunds calculated using the state refund policy (37.5%) were not accurate.

The *Federal Student Financial Aid Handbook* states that "the Higher Education Amendments of 1992 define a 'fair and equitable refund policy' as one that provides for a refund of at least the largest amount under: applicable state law; specific refund requirements established by the school's ... accrediting agency... or the pro rata refund calculation." The 16 refund calculations noted above were based on the state refund policy. The Tennessee Board of Regents Guideline B-060, which is considered state policy for the university, allows the university to keep 25% of its institutional charges in the first two weeks after classes begin and 75% thereafter. The university's computer system is used to calculate the amount to be refunded to each program and to the student, if excess funds remain after program allocations. The housing department is responsible for making the adjustments to the system for the appropriate percentage of room and board.

The housing department's failure to adjust the room and board created the majority of the errors, resulting in underpayments of $2,361.25 to the financial assistance programs and $44 to a student. The computer calculation was not performed correctly for two students, resulting in underpayments of $4. A check issued to one student was used to offset $9.75 of the refund amount. One student's refund was originally calculated correctly and returned to the appropriate programs, but later $1,225 of the refund was credited to the student's account. The total of the refunds due over the refunds returned, as calculated by the auditors, was $3,644—$865 for the Direct Student Loan program, $735 for the Federal Pell Grant program, $1,000 for the Federal Supplemental Educational Opportunity Grant program, $1,000 for the Perkins Loan revolving fund, and $44 to the student.

Recommendation

The Vice-President of Business and Finance should ensure coordination among the financial aid office, business office, and housing department so that the amounts credited back to the federal programs and refunded to the students will be calculated properly.

Management's Comment

We concur with the finding and recommendation. On December 7, 1998, the Housing Office, a division of Student Affairs, made corrections to the pertinent students' accounts. After these corrections and the other corrections to students' accounts by the Bursar's Office, the Financial Aid Office made the necessary adjustments to relevant federal programs. The Bursar's Office has updated the computer table to correct the computer calculation. By March 15, 1999, the Department of Computer Services will assist the Housing Office by providing them with a FOCUS report that will allow them to monitor student account adjustments involving room and board. With the assistance of the FOCUS report, the Housing Office will review the fall 1998 and spring 1999 semesters to ensure that the necessary housing adjustments have been made.

Finding Number	98-UTK-02
CFDA Number	84.007, 84.038, 84.063
Program Name	Student Financial Aid Cluster
Federal Agency	Department of Education
State Agency	University of Tennessee
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

The University of Tennessee at Knoxville does not effectively monitor class attendance for evidence of unofficial withdrawal

Finding

The University of Tennessee at Knoxville does not monitor class attendance for evidence of unofficial withdrawal. The 1997-1998 *Student Financial Aid Handbook*, chapter 3, page 87, states, "Participating SFA [Student Financial Aid] schools are expected to monitor student attendance for the purpose of determining a withdrawal date in cases of unofficial withdrawal."

The absence of adequate procedures to monitor financial aid recipients for unofficial withdrawal could result in an overaward to some recipients. In other cases, necessary refunds may not be made.

Recommendation

The registrar's office and the student financial aid office should develop implement procedures to monitor unofficial withdrawal. Refunds and repayments should be made whenever a financial aid recipient is determined to have unofficially withdrawn.

Management's Comment

The University concurs with the finding. For the Knoxville campus beginning Fall semester 1999, attendance at the first day of class will be reported, and a second verification of attendance will be made on the corrected 14 day class rolls. At the end of the semester, a final check on student attendance will be made with the grade of FX, which is available for faculty to use on grade reports to identify students who never attended class. Students receiving financial aid under Title IV who are identified through these checks as not attending class will be contacted for repayment of loans when their lack of attendance changes their registration status.

Finding Number	98-UTH-02
CFDA Number	84.007, 84.038, 84.063
Program Name	Student Financial Aid Cluster
Federal Agency	Department of Education
State Agency	University of Tennessee
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

The University of Tennessee at Memphis failed to promptly return financial aid refunds

Finding

The University of Tennessee at Memphis bursar's office did not return the federal financial aid portion of refunds to the appropriate programs or lending institutions in a timely manner. The *Code of Federal Regulations*, Section 34, Part 668.22 (h)(2)(iv), states:

> The amount of the Title IV, HEA [Higher Education Act of 1965] program portion of the refund allocated to the Title IV, HEA programs other than the FWS, Federal Stafford Loan, Federal PLUS, and Federal SLS programs must be returned to the appropriate program account or accounts by the institution within 30 days of the date that the student officially withdraws, is expelled, or the institution determines that a student has unofficially withdrawn.

For refunds to lenders, the *Code of Federal Regulations*, Section 34, Part 682.607 (c)(1) states, "A school shall pay a refund that is due within 60 days of the date that the student officially withdraws, is expelled, or the institution determines that a student has unofficially withdrawn."

Nine of 19 refunds tested (68%) were not returned to the appropriate program or lender within the required 30 or 60 day time period. In six cases, the university had not returned the refund.

Recommendation

The bursar's office should return the federal financial aid portion of refunds to the appropriate programs or lending institutions within the time frame specified by federal regulations.

Management's Comment

The university concurs with the finding. The Bursar's Office at UT Memphis will establish procedures to return the Federal financial aid portion of refunds to the appropriate programs or lending institutions within the timeframe specified by Federal regulations.

Finding Number	98-CAFR-01
CFDA Number	Various
Program Name	Various
Federal Agency	Various
State Agency	Department of General Services
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

Improved controls over program changes in the Tennessee On-line Purchasing System are needed

Finding

Controls over program and design changes pertaining to the Tennessee On-Line Purchasing System (TOPS) are not adequate. Requests for program and design changes are not being properly approved, a backlog of program change requests exists, changes are being made directly to the TOPS database through the Order Fix program instead of using properly authorized transactions, and system documentation has not been kept current.

Proper approvals for TOPS program and design change requests are not always obtained by Department of General Services Information Systems and Purchasing personnel. Nine of 13 program and design change requests tested (69%) were not properly approved by General Services' personnel. Without proper approval, programs could be changed inappropriately.

Program and design changes are not being made in a timely manner by General Services' personnel. The TOPS "Tracking Open Reports By Priority" report lists all open program change requests by priority on a scale of A to E with A being the highest priority. As of July 16, 1998, the report consisted of 147 open program change requests—32 A requests, 55 B requests, 36 C requests, 15 D requests, and 9 E requests. Several of the requests with a priority of C or lower appeared to be higher priority than indicated on the list, due to the potential effect of the problem on the financial statements and the effect on the efficiency and effectiveness of TOPS. Seventy-one of the 147 program and design change requests (48%) have remained incomplete for at least two years, with one request remaining incomplete for eight years. This backlog caused by the volume of requests and time constraints increases the risk that vital requests will not be given appropriate consideration due to being pushed down in priority. This large number of outstanding program changes indicates that many areas in the TOPS application are not working properly. Although in many cases compensating controls exist to ensure proper recording in TOPS, the system should be designed to operate effectively.

In addition, problems that are occurring within the TOPS application are being corrected using a program known as Order Fix. Order Fix makes changes directly to the TOPS database. Instead of using program and design changes to correct existing problems within the system, OIR programmers are allowed access to fix the problem directly in the database with Order Fix. Currently, Order Fix is being used on a nightly basis to correct system problems. In some instances, the TOPS information does not interface properly with STARS and the purchase order will not process any further until the problem is fixed. When the purchase order does not process Order Fix is used to correct the problem so the transaction can complete its processing. However, corrections to system data outside normal system controls should not be made as a normal course of daily business as this opens up the data to a greater risk of loss or misuse.

Any system will have occasional problems that require the use of utilities but nightly use of such utilities is not good management practice. Even though division staff maintain paper documentation of the Order Fix changes, the system has no history or record of these changes resulting in the lack of an audit trail. Without an audit trail, the integrity of the data is compromised and the history of transactions is not complete. If the system was designed and functioning properly, use of Order Fix would not be necessary on a nightly basis. Making changes directly to a database instead of correcting errors through properly authorized and documented transactions circumvents system controls.

Furthermore, TOPS system documentation has not been kept current. Data entry screen documentation, logic flow descriptions, and flowcharts have not been updated in three years. Current and complete system documentation should be maintained as part of the department's business resumption plan. Without complete, accurate, and up-to-date system documentation it would be difficult to re-install a system should the need arise. Complete system documentation is also necessary to provide an overview of the system to those involved in strategic planning, training of other employees, or making changes to the system.

Recommendation

The Director of Information Systems should ensure proper controls over TOPS program and design changes are implemented and followed. Program change forms should be signed by user management to designate their review and approval and should also be approved by information system and programming management.

The current backlog of program and design change requests should be reviewed and re-evaluated for priority and these requests should be completed as soon as possible. Future program and design change requests should also be completed timely on the basis of priority.

As the system problems are corrected, the use of Order Fix should be minimized and if possible, eventually eliminated. As problems arise in the future, causes of the problems should be identified quickly and TOPS should be corrected through program and design changes or other appropriate means which leave an audit trail.

Management's Comment

We concur. The information systems division will ensure that analysts testing changes also sign the request form, not just the appropriate purchasing division approver. As of the finding date, the backlog of open requests was especially large because the entire Information Systems division analysts staff as well as all the OIR Systems Development Support (SDS) programmers supporting TOPS had been totally dedicated to the Y2K conversion project. During that project which lasted over one year, all other requests, except true emergencies were put on hold to avoid having to make program changes in two places and to minimize introducing more problems that were not related to the conversion itself.

Now that the Y2K changes have been implemented and the system has been converted to a relational database (DB2) on the Customer Information Computer System (CICS), it is the intention of the Purchasing and Information Systems divisions to review the outstanding problem reports, determine whether each is still a valid report, and reprioritize what is open. Some of these will have been corrected by virtue of changes made during the conversion. It should be noted that a number of existing program problems were identified during the conversion project testing and new problem reports were opened, thus increasing the backlog. The department plans to spend the months of May and June 1999 resolving these problem reports and postponing design change requests. This will allow the department to give particular attention to problems introduced during the conversion and problems that cause data to be corrupted or erroneously updated.

Currently the most common use of the Order Fix program is to correct an order amount that does not match the total of the order lines. While a problem report has been written up on this issue and while it has been known for some time, this occurs occasionally when a user makes an order line change during the course of creating an order. However, analysts have been unable to successfully identify the series of steps the user takes to cause the normal program logic to be bypassed. By placing priority on such problem reports which cause data errors as noted above, it will be possible for the department to devote the analyst resources needed to identify and correct these problems more quickly and thus reduce the use of the Order Fix program. However, because new program changes bear the potential of introducing new data errors, there will always be a need for a utility to repair such data. Therefore, the Information Systems division will implement a tracking document to note the requests for data fixes. This document will supplement the current system output which shows date, document number and fields changed.

About four years ago, the State discussed requiring the vendor to update the old documentation to be consistent with what was then being installed. The number of changes back logged would have made this cost prohibitive. Therefore, the Information Systems division has relied on a combination of the original documentation and the written history of design changes, as well as the programmers' code notes, to provide the complete documentation of the system. This is clearly not the best solution for a business resumption plan; however, the nature of disaster recovery in the mainframe environment would make re-installing the system unnecessary.

Finding Number	98-CAFR-02
CFDA Number	Various
Program Name	Various
Federal Agency	Various
State Agency	Department of General Services
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

Documentation to support access to Tennessee On-line Purchasing System was not on file

Finding

As noted in the prior audit, proper authorization for departmental users' access to the Tennessee On-line Purchasing System (TOPS) was not on file at the Department of General Services. Management concurred with the prior finding and stated:

> A completed and signed TOPS security form is required to set up TOPS security for an individual. Forms that are not signed are returned to the sender for signature. It has been our policy to accept security forms only when completely filled out. If a portion is missing, it is our policy to phone the individual who authorized the form and get the needed information from them verbally. The TOPS Security Officer will write this information on the form in the proper field. All security forms are being filed by the department in alphabetical order.

However, problems were still noted in the current audit with the maintenance of security requests, approvals by General Services' management, and inconsistencies with the access requested. Although each state department determines the access its staff needs to perform their jobs and files authorization forms for this access, General Services' staff are responsible for ensuring that the forms are complete and access is established in TOPS. In many instances, however, access authorization forms were either not obtained, not consistent with actual access, or not properly approved by General Services' management. The signature authorization forms for three of 38 TOPS users were missing. For the remaining 35 applicable forms tested:

- Six (17%) did not have the type of access to TOPS the department had requested on the authorization form, and
- Three (8.6%) were not properly approved by General Services' management.

Failure to obtain and document written authorization for user access means no authority exists for these users' access to the system. Failure to assign the access requested and approved allows some individuals unauthorized access to unintended parts of the system.

Recommendation

The Commissioner should determine why the department's policies referred to in their prior year comments have not been followed. The Department of General Services Purchasing Division should ensure complete access authorization requests for all TOPS users are obtained and maintained. Users should not be given access to TOPS until their departments submit properly approved authorization forms. The requests should specify the type of access approved by user management and the user should be given only the type of access requested. Also, General Services' management should properly approve all security request forms for the TOPS system.

Management's Comment

We concur. The Purchasing division is in the process of reviewing all TOPS security request forms on file for accuracy, to make sure that access requests match what is provided in the system, and to ensure that a Purchasing division representative initials each form to document approval and completion. If access is detected on the system for which we do not have a completed security form, the user ID is inactivated until an approved completed form is received. When forms are found that do not match what is on the system or are incomplete, the individual is contacted and asked to submit a new security request form with their director's approval. Completed security request forms are being filed alphabetically by department in a secured file. We plan to have this review completed by October 30, 1999.

Finding Number	98-CAFR-03
CFDA Number	Various
Program Name	Various
Federal Agency	Various
State Agency	Department of General Services
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

Controls over the Property of the State of Tennessee system need to be improved

Finding

As noted in the prior audit, administration of the Property of the State of Tennessee (POST) system does not provide assurance that assets are accurately recorded. The problems noted in the prior audit that were not corrected include retirement batches, security administration, asset values, and object codes.

Retirement of Equipment

Management concurred with the prior finding and stated that errors noted in processing retirement of equipment are now turned over to Information Systems Management (ISM) to be handled through Multitrac and OIR utilities to correct the problems. Sometimes retirements (i.e. deletions) do not post correctly and halt processing. To restart processing, the Department of General Services makes changes directly to the POST database through Utility Services On-line (USO). This utility overwrites data and leaves no audit trail such as the date of the change, its purpose, and the name of the employee making the change.

Although, management stated in the prior year finding that the use of USO was turned over to Information Systems Management (ISM), the property manager is still using USO to make corrections. The Property Manager would not need this type of access if the system functioned correctly.

In addition, eight of 100 retirements (8%) were not properly documented. Five of these did not have the approval of the department head on the retirement request, two did not contain a police or security report, and one did not contain the correct location and vendor name. Allowing assets to be retired without obtaining appropriate approval or all necessary information creates a potential for misappropriation of assets that could go undetected.

Security Administration

Security authorization forms are used by the department to authorize and document each user's approved access to POST. However, four of 60 users (6.7%) did not have the type of POST access requested. Failure to assign the access requested and approved allows some individuals unauthorized access to parts of the system.

Asset Values and Object Codes

Management concurred with the prior finding and admitted that some transfer transactions were not processing correctly, causing object code fields to be dropped. Management also stated that problems with object codes, funds, and costs were corrected. Actions taken by management were ineffective since problems were again noted with asset values and object codes in the current audit.

Records on POST were incomplete, invalid, and inaccurate:

- Thirty-nine records had object codes other than "16" (equipment) and "099" (sensitive items). These items totaled $26,203.37. There are no edits in POST to prevent incorrect object codes from being used.
- Three hundred eighty-nine records had blank object codes. These items totaled $375,036.36.
- Three hundred twenty-one items had a cost less than $1.00 because they were not recorded at fair market value. General Services' personnel do not investigate items with low costs to determine whether the items need to be recorded on the POST system, and if so, whether they are recorded at the appropriate amount. Items costing $1,000 or more and sensitive items as defined by General Services should be recorded on POST.
- POST did not have complete location information for six of 40 equipment expenditures tested (15%).

Inaccurate object codes, costs, and location information affect the accuracy of the state's fixed asset records.

Recommendation

The Commissioner should determine why management did not make the changes they stated would be made in their prior year comments. The POST system should be modified so that retirement transactions record correctly, thereby eliminating the need to use USO to correct data. Any use of USO should only be performed by Information Systems Management (ISM) and documented to include date of change, purpose of the change, name of employee making the change, and approval. The Property Manager's USO use should be eliminated. In addition, all appropriate approvals and information should be obtained before assets are retired.

The system access given to each user should agree to that approved on the security authorization form.

Edits should be established in POST to prevent incorrect object codes. General Services personnel should investigate items with low costs to determine whether the items need to be recorded on POST and if so, whether they are recorded at the appropriate amount. All location information should be completed on POST.

Management's Comment

Retirement of Equipment

We concur. Version 16.6.4 of POST was activated on February 18, 1999, and the property manager's security profile was changed on February 19, 1999, to remove USO capabilities. Management will do a closer review of retirement documentation. Nothing will be retired without complete review according to policy.

Security Administration

We concur. A review of the security forms was supposed to be completed by June of 1998. We were unable to complete this task until December of 1998. Security profiles will be compared to documents again to ensure correctness. While the documents reviewed by State Audit were incorrect, the actual profiles for the four users in question provided the security access that was needed.

Asset Values and Object Codes

We concur. The original problem of the system dropping object codes was fixed some time ago. We later discovered the field would accept any combination of numbers for an object code. A transfer screen edit was developed by our Information Systems division personnel that was made effective April 15, 1999, to ensure POST will only accept object codes 099, 095, and 16x. This edit should address the 39 items with incorrect object codes. The 389 items with blank object codes were all retired records and therefore, have no bearing on any financial reports coming out of POST. Effort is underway to provide the correct dollar amount for those items that have less than one dollar cost. All property officers are required to update location information during the fiscal year end inventories. However, we cannot control the actions of property officers in other departments.

Finding Number	98-CAFR-04
CFDA Number	Various
Program Name	Various
Federal Agency	Various
State Agency	Department of Finance and Administration
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

Duties of Employees Performing Statewide Payroll Functions Are Not Adequately Segregated

Finding

Duties of employees performing statewide payroll functions in the Division of Accounts are not adequately segregated. One employee's responsibilities include processing and approving payroll transactions through the State Employee Information System (SEIS) and the Data Capture System (DCS) systems, correcting payroll processing errors, and monitoring the issuance of payroll checks. The employee also serves as the Security Administrator for both SEIS and DCS, giving this employee access to the security settings in the systems, which provide for many of the system controls. Effective internal controls over any accounting process require duties to be adequately segregated. One employee should not be responsible for normal payroll processing, error corrections, security administration, and have access to the actual payroll checks.

While there have been no known irregularities associated with the lack of segregation of duties, the situation allows possible errors and irregularities to occur and go undetected in a timely manner by employees in the normal course of performing their duties.

This same individual is the only employee who has a comprehensive understanding of the entire payroll process. Other employees rely heavily on this employee to help them correct payroll-related problems. When only one employee has full knowledge of an accounting process, other employees may be so dependent on this employee that the division would face a major crisis if the knowledgeable employee was suddenly unavailable.

Recommendation

The Director of Payroll should re-evaluate the processes and job duties of each employee in the statewide payroll section and develop a plan to ensure employees are not assigned incompatible duties creating situations that allow for misappropriation of assets. Job assignments should be re-evaluated on a periodic basis as changes in circumstances, conditions, and computer systems occur.

Management's Comment

We concur. Many compensating controls exist to ensure appropriate processing of payroll transactions. These controls include departmental initiation and approval of transactions, Department of Personnel approval and finally Payroll management review. Even though there have been no known irregularities, the Payroll management is currently re-evaluating the processes and job duties of each employee. A plan is being developed by Payroll management to ensure employees are not assigned incompatible duties.

Finding Number	98-CAFR-05
CFDA Number	Various
Program Name	Various
Federal Agency	Various
State Agency	Department of Finance and Administration
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

<u>Access to the State Employee Information System has not been regularly reviewed</u>

Finding

The Division of Accounts statewide payroll section has not regularly reviewed access to the State Employee Information System (SEIS). Like other internal controls, access controls should be evaluated regularly to ensure they are still effective. Personnel and departmental changes can impact the effectiveness of these controls. Good security controls require access to systems to be limited to a "need-to-know, need-to-do" basis. Because security access has not been periodically reviewed, unused SEIS User IDs were noted. Of the 902 SEIS users as of August 8, 1998,

- 174 users had never signed on the system;
- 509 users had an active status but had not signed on the system in the last 180 days; and
- 79 users had an "inactive" status, which means that they are in "without pay status." (System security does not allow "inactive" IDs access to the system.)

The large number of unused User IDs indicates there are individuals with access who do not need it and should no longer have access to the system. Because of the sensitive nature of data in SEIS, limited access is vital.

When the Data Capture System (DCS) was implemented in fiscal year 1996, timekeeping functions were moved from SEIS to DCS. Therefore, many SEIS users no longer needed access to that system. However, neither the Security Administrator nor user management have reviewed the necessity of SEIS users' security access since DCS' inception.

Recommendation

Annually, the Division of Accounts should require the departments to review security access for all current User IDs to determine whether the access is still appropriate based on the employee's current job responsibilities. Appropriate changes should be made based on user management's recommendations. Departments should be instructed that User IDs and passwords should be revoked for those who no longer need access to SEIS. The Division of Accounts should eliminate all inactive user IDs from the system, even though inactive IDs do not allow access to the system.

Management's Comment

We do not concur. In our opinion, this is not a material weakness. The Division of Accounts controls access to the SEIS through an authorization process. Departments determine their own user needs based on their administrative control structure. The Division does not have a routine procedure for eliminating inactive user accounts, but one will be established. Inactive accounts have been removed.

Auditor's Comment

Management appears to be taking the action recommended.

Finding Number	98-CAFR-06
CFDA Number	Various
Program Name	Various
Federal Agency	Various
State Agency	Department of Finance and Administration
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

The Division of Accounts internal Post-Audit review process needs improvement

Finding

The Division of Accounts reviews departmental expenditures through either the Post-Audit or Pre-Audit process before releasing batches of data in the State of Tennessee Accounting and Reporting System (STARS). For agencies in Post-Audit status, the Division reviews the department's expenditures to determine whether the documents have been approved by author-ized officials of the department and to ensure any corrections requested by the department are made. For agencies in Pre-Audit status, the Division performs a more comprehensive review of the department's expenditures before they are processed.

Agencies may request to be placed in Post-Audit status by the Division of Accounts. The Post-Audit section of the Division then performs a review of the department's internal controls completing an internal control questionnaire, as well as testing a sample of disbursements to determine if the department has properly processed and accounted for its transactions.

For departments that are placed in Post-Audit status, the Division states they perform periodic reviews to ensure the department should remain in Post-Audit status or whether it should be returned to Pre-Audit status. However, the Division has no written policies or procedures over the Post-Audit process that state how often they plan to perform periodic reviews.

There were sixteen departments in Post-Audit status as of July 1998. However, only one had a Post-Audit report issued during the 1998 fiscal year and two other departments had reports in progress at that time. Although recent sample testwork had been performed on the other thirteen departments, no reports were in progress or had been issued. The report is the method used by the Division of Accounts to document their decision regarding a department's Post-Audit status.

One department was notified in March 1993 that they would remain in Post-Audit status, but the department needed to improve their disbursement process and correct the signature authorization and segregation of duties problems. In July 1996, the Division of Accounts performed another Post-Audit review of this department. The Division of Accounts found many of the same problems that were noted in the 1993 review. However, the department was allowed to remain in Post-Audit status and told that another review would be performed in September 1996. The Division of Accounts told the department they would need to make significant improvements to remain in Post-audit status after the September review. The Division of Accounts did not perform the review until July 1998 and the report for this review was not available at the time of the audit.

When a department is in Post-Audit status, their expenditures are not subject to the same controls as the agencies in Pre-Audit status. If the department mentioned above had been on Pre-Audit status, the Division of Accounts may not have processed the documents with many of the errors noted until they were corrected. However, these transactions were processed with the errors because they did not go through the Pre-Audit process. Without timely completion of Post-Audit reports and proper follow-up of the Post-Audit recommendations, the Division of Accounts has little assurance that transactions for departments in Post-Audit status are being properly processed.

Recommendation

The Division of Accounts should develop written policies and procedures that address how often they plan to perform Post Audit reviews of the departments. In addition, management should prepare timely reports for all Post-Audit reviews performed.

Management's Comment

We concur. The Division has addressed the timeliness of reporting problem strategically by moving some responsibilities to a new section. Timeliness was affected by staff turnover and the resulting difficulty of finding qualified accountants willing to work within our pay scale. The division allocated the remaining resources to critical regulatory compliance issues such as federal 1099 reporting, the state's comprehensive annual financial reporting, and preparation of the schedules of grant activity required by the federal government. The responsibility for accurate and timely processing of accounting entries does not rest solely upon the Division of Accounts. As required by *Tennessee Code Annotated*, Section 9-18-102, each agency must accept responsibility for establishing and maintaining adequate accounting and administrative systems to assure that transactions are being properly processed. Guidelines for the timing of reviews will be established.

Finding Number	98-CAFR-07
CFDA Number	Various
Program Name	Various
Federal Agency	Various
State Agency	Department of Finance and Administration
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

Signature Authorization Procedures Are Not Adequate

Finding

The Division of Accounts has not maintained complete and accurate signature authorization forms for each state department. Each state agency is required to submit a signature authorization form covering each of its allotment codes. The form documents the signatures of employees authorized to sign for the department head and budget/fiscal officer. Division of Accounts' employees use these forms to ensure transactions are properly approved before they are processed for payment.

The most recent Division of Accounts memorandum requesting signature authorization forms from each department stated:

> The upper right corner section of the signature authorization form identifies the administering agency allotment code and the agency division codes covered by the authorization form. These codes are important and should be completed carefully to insure only those authorized personnel are allowed to sign the appropriate accounting documents in each division.
>
> Complete a new signature authorization form at the beginning of each fiscal year for all personnel authorized to sign the fiscal officer and department head signatures on all accounting documents. ...The original signatures of the fiscal officer and the department head must appear in the designated space at the bottom of the signature authorization form to validate the authorized signatures. ...If changes occur in those personnel authorized to sign for the fiscal officer or the department head during the year, complete a new signature authorization form to replace the existing form on file in the [Division of Accounts].

The Division of Accounts has not ensured that signature authorization forms are received and updated by the departments when necessary. The Division of Accounts has not required each department to submit new forms at the beginning of each fiscal year. In addition, the Division has accepted improperly completed forms from the departments.

A review of 104 signature authorization forms on file was performed and the following errors were noted:

- Forty-three forms (41%) were not signed by the actual department head. Forty-one of the forms had a name other than the name of the department head in the designated space on the form and two of the forms were signed by a designee and initialed.

- Forty-two forms (40%) were not completed correctly. For example, people authorized to sign for the department head and fiscal/budget officer were to show their signature of the department head and/or fiscal/budget officer with their initials. However, they would sign their own name or they would sign a name of someone other than the department head or fiscal/budget officer.
- Thirty-six forms (35%) had a name other than the name of the actual budget/fiscal officer in the designated space on the form.

In addition, nine of 50 supplemental payroll transactions exceeding $10,000 (18%) were processed by the statewide Payroll Division, but were not properly approved at the departments. They were signed by an employee without authorization to sign for the department head. Also, eight of these 50 payroll transactions (16%) were not properly approved by the budget/fiscal officer in accordance with the signature authorization form. The payroll officer approved the transactions. The Division of Accounts does not require a different signature authorization form for payroll transactions, but uses the same form used for other fiscal transactions.

Furthermore, the department has not adequately administered the signature authorization process in relation to the Department of Mental Health and Mental Retardation (DMHMR). Signature authorization forms for the state's developmental centers still showed DMHMR officials as the department head and budget/fiscal officer. However, the developmental centers were moved by executive order from DMHMR to the Department of Finance and Administration on February 17, 1996, (Executive Order 9-Arlington) and October 14, 1996 (Executive Order 10-all others). In addition, the Division of Accounts has allowed forms for the developmental centers, the mental health institutes, and the correctional facilities to vary from the regular format. The Division has allowed the facility superintendents and facility fiscal officers to sign as the actual department head and fiscal officer.

Neither the Commissioner of Finance and Administration nor the budget/fiscal officer signed the Department of Finance and Administration's signature authorization forms for the Insurance Administration Division. The Division of Accounts authorization forms were not signed by the Commissioner of Finance and Administration. In addition, the designated employees did not always sign the name of the department head or fiscal director with their initials, but instead signed either their own names or another department employee's name for the department head.

Current signature authorization forms have not been maintained and used properly by the Division of Accounts. Although each department may have submitted a correct form at one time, many forms were no longer current because some of the employees listed had either changed positions or departments, or even terminated their employment with state government. Twenty-four of 52 agencies (46.2%) have one or more forms that have not been updated in more than one year.

Without using current and correct signature authorization forms, the Division of Accounts cannot ensure all transactions are being properly approved at the departments before they are sent to Accounts for processing.

Recommendation

The Division of Accounts should implement controls to ensure properly completed signature authorization forms are submitted at least annually for each department before processing a department's transactions. Management should also consider whether to require separate forms for payroll transactions since these transactions need to be approved by the payroll officer instead of the fiscal/budget officer.

Management's Comment

We concur. The Division of Accounts is currently revising the authorization form in ways to make it simpler for the preparer to complete and easier to understand management's intent. The Division of Accounts requested updated authorization forms during each annual accounting meeting except for the 1998 meeting. The reason the forms were not addressed at the 1998 meeting was because the auditors had raised questions about the content of the forms. The signature authorization form is not regulation nor is it state law. No commissioner or agency head can shirk his/her ultimate responsibility for the business conducted within his/her department. Departmental management decides who is authorized to sign forms that ultimately result in accounting transactions. Division of Accounts' concern is that the paperwork be completed and reviewed by a person who is knowledgeable about the transaction and related accounting classification information so that it can process an approved, accurate transaction. Upon revising the form, the Division of Accounts will establish another routine method for renewing the forms' information to more clearly reflect management's intent.

Finding Number	98-CAFR-08
CFDA Number	Various
Program Name	Various
Federal Agency	Various
State Agency	Department of Finance and Administration
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

All STARS Program Changes Were Not Properly Approved

Finding

Two of 10 State of Tennessee Accounting and Reporting System (STARS) program changes made (20%) did not have proper management authorization or approval. These program changes were initiated by staff in the Information Systems Management (ISM) division. Normally, the department uses a program change request to document the change and approval of the request. However, for these two program changes, no request form was completed. The request form requires approval of the test results, as well as endorsement by user management. Since the form was not completed, the approval of the program change was not properly documented.

Without a proper program change approval process, programs could be modified and changed without management's knowledge resulting in a system that does not meet user needs and stated objectives.

Recommendation

The Director of Information Systems Management should ensure all program change requests are initiated only upon written request and approved in writing before program changes are made.

Management's Comment

We concur. We will take the necessary steps to ensure that all program change requests are properly initiated and approved.

Finding Number	98-CAFR-10
CFDA Number	Various
Program Name	Various
Federal Agency	Various
State Agency	Department of Finance and Administration
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

Office for Information Resources procedures for billing for dedicated equipment are inadequate

Finding

The Office for Information Resources (OIR) provides computer and telecommunication services and hardware to state departments and bills agencies for services provided statewide and for dedicated equipment which is for a specific agency's use. The rates charged by OIR for dedicated equipment should cover cost which includes an administrative fee. OIR has not been reviewing the cost versus recovery information for the dedicated equipment billings which has allowed agencies to be billed in excess of costs for dedicated equipment.

Of the 134 dedicated equipment cost centers reviewed, 34 (25%) had billings that resulted in over- or underbillings. Twenty of the cost centers (15%) had overbillings and 14 (10%) had underbillings. A number of these agencies receive federal funding and may have passed these under/overbillings to the federal government.

If billings are not accurate for dedicated equipment, state departments will not pay their proportionate share of the costs. Some would pay too much, while others would not pay enough for specific services and hardware.

Recommendation

The Chief of OIR should establish procedures to ensure revenues for each dedicated equipment cost center are properly matched against expenses.

Management's Comment

We concur. Timely close out for all dedicated equipment cost centers will be completed in the future.

Finding Number	98-CAFR-11
CFDA Number	Various
Program Name	Various
Federal Agency	Various
State Agency	Department of Finance and Administration
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

Inventory tagging and billing procedures in the Office for Information Resources were not adequate

Finding

Office for Information Resources' (OIR) equipment was surplused during the fiscal year but not promptly taken off the inventory records. OIR used improper tag numbers on this equipment which resulted in computer upgrades and software remaining on the equipment listing after they had been surplused with the upgraded equipment. Also, OIR wrote off additional items that were add-ons to equipment previously surplused. Adjustments were made to the equipment records to correct the balances before the financial statements were prepared.

Much of the equipment OIR purchases is used at other departments which pay OIR for the use of the equipment. When a department no longer needs a piece of equipment, it submits a Request for Service (RFS) instructing OIR to pick up the equipment and stop the billing. A review ofRFSs disclosed the following weaknesses:

a. For 18 of 25 RFSs tested (72%), OIR billed agencies for more than 30 days after equipment was removed from the agencies by OIR personnel. The billings continued for 48 days to approximately 12 months.

b. For 20 of 25 RFSs tested (80%), the Property of the State of Tennessee (POST) system had not been updated within 30 days to indicate changes in the equipment's location. The delays ranged from 41 days to approximately 15 months.

When proper equipment records are not maintained, the probability increases that equipment will be lost or stolen and not be detected. If proper follow-up is not made when an RFS is completed, leasing agencies will be improperly charged for equipment they no longer have.

Recommendation

The Assistant Commissioner of Administration should ensure that appropriate inventory procedures are established and communicated to the agencies which are leasing the equipment, so OIR can make timely changes to the equipment and billing records. This should result in missing equipment being detected more promptly. If a piece of equipment is not found, Internal Audit and the Comptroller's office should be promptly notified; and the records in POST updated. As upgrades and software are added to equipment, POST records should be updated to include information about these add-ons.

The Assistant Commissioner for OIR should ensure that billings for equipment usage are stopped after an RFS is completed and that the records in POST are updated promptly. Each RFS should be tracked to ensure that the property records are updated timely and to ensure that the billings are correct.

Management's Comment

We concur that timely changes should be made to the inventory and billing records. It is the responsibility of F&A's fiscal office to facilitate an annual inventory of all OIR equipment, both internal use and leased. We have improved our inventory process for this fiscal year by providing training on the inventory procedures to OIR and other department's staff that lease equipment from OIR. Currently the number of items inventoried is improved over previous years. We are continuing to pursue items not inventoried with the appropriate departments.

Depending on the type of equipment/service, the appropriate staff from OIR is responsible for completing the RFS which includes updating the billing and inventory system. Department's leasing equipment from OIR are billed monthly for OIR equipment and services. Any billing discrepancies noted by a department will be corrected.

Finding Number	98-CAFR-12
CFDA Number	Various
Program Name	Various
Federal Agency	Various
State Agency	Department of Finance and Administration
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

<u>The Division of Resource Development and Support's policies and procedures over monitoring agreements needs improvement</u>

Finding

Through agreements with other state departments and two divisions within the department, the Division of Resource Development and Support (RDS) monitors subcontractors for other state agencies and divisions. Deficiencies were noted in several areas

a. RDS did not comply with the state's contracting procedures. The agreements for monitoring services with the Department of Human Services and the Department of Children's Services were written as memoranda of understanding. However, the Office of Contracts Administration's rules and regulations do not address the use of memoranda of understanding. The Office of Contract Administration's rules and regulations only list interdepartmental contracts as the method of contracting between agencies. The absence of rules and regulations or policies and procedures allowing the use of memoranda of understanding indicates they are not an approved method of contracting between agencies.

b. The monitoring agreements were not approved before the start of the agreements. The approval signatures for the agreement with the Office of Criminal Justice (OCJ) were dated four and one-half months after the start of the agreement; however, no work was started until the agreement was signed. In addition, the agreements with the Department of Children's Services and Human Services were not dated. Contracts should be properly entered into and signed and dated by all parties before the effective date of the contracts to ensure they are properly executed documents.

c. The monitoring agreement with Human Services did not describe specific procedures to be followed by RDS staff during the fiscal monitoring visits performed for Human Services. All contracts whether with another state department or outside party need to clearly state the terms and conditions for both parties. Full disclosure could prevent misunderstandings or unmet obligations on either party's part.

d. Not all subcontractors listed in the agreements were fiscally monitored by RDS staff.

   - Two of 11 Human Services subcontractors (9.1%).
   - Fifty-five of 110 Office of Criminal Justice fiscal year 1998 subcontracts (50%).

The memorandum with the Office of Criminal Justice states that OCJ is to provide a list of contracts to be reviewed by RDS. This list is Attachment B to the memorandum of understanding and lists the 110 subcontractors. Management stated that it did not intend for all subcontractors referenced in the agreements to be monitored. However, the documents indicate that all or at least most subcontractors would be monitored, but only 50% of the subcontractors were actually monitored for fiscal year 1998.

Recommendation

The commissioner should ensure agreements involving the department and other state departments comply with state contract policies and procedures. All contracts should be signed and dated no later than the effective date of the contract.

Management's Comment

We do not concur. All issues noted in the finding are at best procedural issues. There were no detrimental consequences arising because of the format of the agreement, the date the contract was signed, not specifying fiscal monitoring procedures and not specifying specific contracts to be monitored.

However, in the future the department will use interdepartmental agreements with all state agencies and memorandum of agreement for programs within Finance and Administration (i.e. Office of Criminal Justice, Commission on National and Community Service, etc.). To the extent possible, all agreements will be in place prior to the start date.

Auditor's Comment

Management appears to be taking the action recommended.

Finding Number	98-DHS-01
CFDA Number	93.563
Program Name	Child Support Enforcement Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Human Services
Grant/Contract No.	G9804TN4004
Finding Type	Material Noncompliance, Special Tests and Provisions
Questioned Costs	None

The department did not comply with child support enforcement procedures

Finding

As noted in the four prior audit reports, the department did not comply with child support enforcement procedures. The Department of Human Services is the designated Child Support Enforcement Title IV-D office; however, enforcement activities are generally contracted out to district attorneys general or to private contractors. Although these agencies have day-to-day responsibility for child support enforcement, the Department of Human Services has ultimate responsibility for compliance with federal regulations.

The most significant deficiencies noted in the prior audit concerned the department's failure to take all necessary steps to locate noncustodial parents. The Tennessee Child Support Enforcement System (TCSES) was designed to automate much of the necessary location activity; however, the TCSES locate function was completely disabled during the prior audit period and for much of the current audit period. Management concurred with the prior audit findings and stated, "The importance of locate interfaces is recognized and will continue to be a major emphasis in the program. The state reactivated the locate interfaces as of November 24, 1997. Locate was activated by [judicial] districts with the expectation that all districts will be activated by May 27, 1998." According to management, the locate interfaces were reactivated statewide as of July 30, 1998, but the most critical locate interfaces were again disabled in August and September 1998 when problems occurred. Management, however, was not aware the locate interfaces had again been disabled until January 1999 because of a series of miscommunications between department and Andersen Consulting personnel. Once the locate function is operating properly, many of the issues discussed in this finding should be resolved.

In a review of active child support cases using the Tennessee Child Support Enforcement System (TCSES), the following weaknesses were noted:

a. Nine of 24 cases tested (37.5%) did not have evidence that all feasible sources were used to attempt to locate the absent parent. *Code of Federal Regulations*, Title 45, Section 303.3(b)(1), states:

> The state must use appropriate location sources such as the Federal [Parent Locator Service] interstate location networks; local officials and employees administering public assistance, general assistance, medical assistance, food stamps and social services (whether such individuals are employed by the State or a political subdivision); relatives and friends of the absent parent; current or past employers; the local telephone company; the U.S. Postal Service; financial references; unions; fraternal organizations; and police, parole, and probation records if appropriate; and State agencies and departments, as authorized by State law, including those departments which

maintain records of public assistance, wages and employment, unemployment insurance, income taxation, driver's licenses, vehicle registration, and criminal records.

b. Ten of 11 cases tested (90.9%) did not have evidence that the Federal Parent Locator Service (PLS) was used within 75 days of determining that locate functions were necessary. *Code of Federal Regulations*, Title 45, Section 303.3(b)(3), states, "Within no more than 75 calendar days of determining that location is necessary, access all appropriate location sources, including transmitting appropriate cases to the Federal PLS, and ensure that location information is sufficient to take the next appropriate action in a case."

c. Ten of 23 cases tested (43.5%) did not have evidence that attempts to locate absent parents were repeated quarterly or immediately upon receipt of new information. *Code of Federal Regulations*, Title 45, Section 303.3(b)(5), states that the IV-D agency must

> repeat location attempts in cases in which previous attempts to locate absent parents or sources of income and/or assets have failed, but adequate identifying and other information exists to meet requirements for submittal for location, either quarterly or immediately upon receipt of new information which may aid in location, whichever occurs sooner.

d. One of five cases tested (20%) contained no documentation that the child support order was reviewed within a 36-month interval. Therefore, it could not be determined whether notification of a review should have been sent to each parent at least 30 days before the review or whether each parent should have been notified of the results of the review. *Code of Federal Regulations*, Title 45, Section 303.8(c)(4), states that the state must "review child support orders at 36-month intervals after establishment of the order or the most recent review."

e. Four of 22 cases tested (18.2%) did not have evidence of attempts to enforce all child support obligations. *Code of Federal Regulations*, Title 45, part 303.6(b)(2), states that enforcement action is required to be taken "within 30 calendar days of identifying a delinquency or other support-related noncompliance with the order...."

f. One of six cases tested (16.7%) contained no documentation that an order for medical support was enforced by the IV-D agency. *Code of Federal Regulations*, Title 45, Section 303.31(b)(7), states, "If health insurance is available to the absent parent at reasonable cost and has not been obtained at the time the order is entered, [the IV-D agency shall] take steps to enforce the health insurance coverage required by the support order. . . ."

g. Six of 38 cases tested (15.8%) were not classified correctly in TCSES.

- For three cases, the case type in TCSES did not reflect pertinent information from the Automated Client Certification and Eligibility Network system. The conversion errors appear to have occurred when the cases were established in TCSES.

- For two cases, the noncustodial parent (NCP) was classified as not located when the NCP was actually located and making regular payments. The case record in TCSES appears to have not been updated properly.

- One case was assigned ten different case numbers.

Correctly classifying the case type in the system is essential for proper distribution of child support. When numerous case type errors exist, case workers can lose confidence in the reliability of the system.

h. Three of 39 cases tested (7.7%) were not valid open cases. These cases were classified as active open when they should have been classified as closed. When the active case population includes cases that are not valid or should no longer be open, a child support worker's attention can be diverted needlessly from truly active cases.

The failure to promptly attempt to locate absent parents, to repeat location attempts as necessary, to enforce child support and medical support orders, to classify cases correctly, to close cases timely, and to review orders timely may deprive caretakers and dependent children of needed financial support or deprive the state's Child Support Enforcement Program of reimbursement of program expenses.

In light of the high error rates related to location functions, computer-assisted auditing techniques were used to analyze location attempts for the entire population of individuals with a status of "active, not located." Emphasis was placed on location activities considered to be key for compliance with federal regulations—the use of the Electronic Parent Locator Network, the Federal PLS, and the periodic cross-matches with state employment security agency databases.

No location attempts were recorded in TCSES for any of these crucial activities from at least January 31, 1996, until November 20, 1997, since the location function had been disabled sometime during this period. Therefore, no key sources were used to locate absent parents, and quarterly location attempts, which at a minimum must include matching to state employment security records, were not made. When the location function was disabled in TCSES, the vast majority of judicial districts did not have access to the Federal PLS and could not perform the required search. Only the urban judicial districts, such as, Davidson, Knox, Hamilton, and Shelby Counties, had direct access to the Federal PLS.

TCSES was programmed to perform location functions using automatic interfaces between various computer systems of different agencies. These functions should be automatically recorded on the system's locate diary but were not since the location function in TCSES was disabled. If manual location attempts were made, these attempts were not recorded in TCSES. *The Tennessee Child Support Enforcement System Policies and Procedures Manual*, chapter 3, states, "The required documentation for the case will be maintained within the system by the use of various interfaces or by manually entering information by the worker. Such documentation will consist of . . . a record of local and state location efforts including the dates and the results."

Recommendation

The Director of Child Support should ensure that all available sources are used to locate absent parents, and if attempts are unsuccessful, location attempts should be repeated at least quarterly or immediately upon receipt of new information. The director should ensure that attempts are made to enforce the necessary support obligations. Further, the director should ensure that all cases on TCSES are classified correctly and that support orders are reviewed in a timely manner. The commissioner should ensure that the efforts of the Director of Child Support are frequently monitored to ensure compliance with child support enforcement procedures. The Director of Child Support and the Director of Internal Audit should work together to perform analytical procedures on the TCSES databases to monitor activity and determine areas of noncompliance. The failure to comply with child support enforcement procedures should result in appropriate administrative action.

Management's Comment

We concur. During the past several audit periods, the Department of Human Services has been involved with the process of automating the location of absent parents. The department undertook the automation process with the knowledge that it would be a long-term project and that unforeseen problems would arise. The automation process was slowed by the complex nature of locating parents, the involvement of other agencies, system conversions, and the enormous amount of transactions. The department understands the importance of locating noncustodial parents. We are committed to resolving remaining system problems and fully utilizing the automated locate system.

The following actions related to this finding have been initiated:

I. The locate functions of TCSES which were disabled in August and September 1998 are being modified as needed. Phasing in of the reactivating of locate functions started in March 1999. Anticipated completion date is August 1999.

II. Status meetings of the project management team occur biweekly. The team includes the Director of Child Support, Program Managers of Child Support, Director of Child Support Fiscal, Information Systems TCSES Project Manager, and Andersen Consulting Project Management. The purpose of the status meetings is to discuss priorities, problem areas (on-line and batch) and problem resolution. All priority items will be tracked with a written status report. In addition, TCSES steering committee meetings are scheduled on a monthly schedule and more frequently as needed. The steering committee includes the Assistant Commissioners of Family Assistance and Administrative Services; Directors of Child Support, Information Systems, Fiscal Services, and Project Management from DHS; and Andersen Consulting. The purpose of this is to establish top priorities and track development and implementation activities and establish corrective action procedures when appropriate.

III. The Director of Child Support will consult with the Director of Internal Audit to develop an appropriate plan of action relating to TCSES activity and compliance. Status of TCSES modifications and problems encountered which will create a delay in implementation or require a modification to existing production processing will be provided to the Director of Child Support in writing. Approval must be received from appropriate state staff (Director of Child Support or Fiscal Services or Child Support Program Managers or IS Project Manager) prior to on-line or batch modifications or the disabling of any production functionality.

The department's response to each noted weakness follows:

a. The department will re-emphasize through quarterly training meetings with local enforcement offices the importance of using all locally available location resources and properly documenting TCSES with the effort and the result for each case action. Informational memoranda will be issued as deemed necessary to reinforce a correct understanding of the need to use local resources and enter proper documentation in TCSES. A plan is in place to reactivate the TCSES locate interfaces in a phased schedule beginning in March 1999 and concluding in August 1999.

b. The capability to transmit appropriate child support cases to Federal PLS is part of the systematic approach referred to in Response 1a. This feature required formatting changes to the file layout to enable the interface to work properly and is scheduled to be active by July 1999.

c. With the activation of the location interfaces as described in Response 1a., locate will be attempted quarterly or when new information is made available.

d. The department will re-emphasize review and modification policy during quarterly training sessions and through Informational memoranda as appropriate, stressing the necessity to properly update TCSES with effort and result.

e. We will emphasize compliance with child support enforcement by quarterly training, policy issuances as appropriate, through the child support annual conference and by any other appropriate means.

f. We will re-emphasize the need to take appropriate steps to enforce medical support by quarterly training, policy issuances as appropriate, through the child support annual conference and by any other appropriate means. Federal and state work groups are currently working to identify obstacles faced by states to effectively enforce medical support. We will provide appropriate information to assist the work groups and will look with interest at any solutions or recommendations offered by the work groups that might enhance our medical support enforcement capabilities.

g. An automated case type change update was completed on all cases in TCSES during the months of July to November 1998. The purpose of this update was to modify TCSES with the appropriate case type based on information from the ACCENT system. Cases that could not automatically be updated were identified for the local offices so that a manual correction could be applied if appropriate.

h. Reports of the local offices' caseload and reports of cases with orders or with paternity established were provided to each of the judicial districts during the summer of 1998. Many of the districts have used these reports to assist in closing cases that are appropriate for closure. With each unique activity, such as IRS intercept, as well as the normal case activity, the local districts are taking actions to clean their caseload and close cases that are appropriate for closure. We will continue to work with the districts to make this a priority. Management reviews of the local office operation were completed in many of the judicial districts during calendar year 1998. A major focus of this review was to access the status of the caseload clean-up. Recommendations for corrective action were provided to the administrator and the area coordinator as determined appropriate by the review.

Finding Number	98-DHS-02
CFDA Number	93.563
Program Name	Child Support Enforcement Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Human Services
Grant/Contract No.	G9804TN4004
Finding Type	Material Noncompliance, Special Tests and Provisions
Questioned Costs	None

The department did not comply with federal regulations concerning the distribution of child support payments

Finding

As noted in the four prior audit reports, the department did not comply with federal regulations concerning the timeliness of distribution of child support payments. The department concurred with the prior audit findings and stated that the new child support system (TCSES), when implemented, would resolve these problems. However, the department had not fully completed the transition to TCSES tax-intercept processing during the audit period.

The *Code of Federal Regulations*, Title 45, Section 302.32(f)(2)(iv), requires that intercepted federal income tax refunds be distributed, as appropriate, "within 30 calendar days of the date of initial receipt by the IV-D agency." Ten of 19 intercepted IRS tax refunds reviewed (52.6%) were distributed late or not processed at all. These payments were remitted from two to 405 days late as of November 22, 1998. Many of the tax intercepts were processed using the old Child Support Management System (CSMS) or were processed manually during the transition to TCSES tax-intercept processing.

In addition, the local child support enforcement offices were contacted to determine whether the local office had records that the tax intercepts had taken place and whether the noncustodial parents' arrearage balances had been properly adjusted to reflect the intercepted funds. Eight of 19 district offices (42.1%) replied that they had no record the intercepts had occurred, and 12 (63.2%) replied that the arrears had not been adjusted to reflect the intercepted funds. The *Code of Federal Regulations*, Title 45, Section 303.102 (g)(3)(iv), states, "The State must credit amounts offset on individual payment records."

Failure to distribute child support payments in a timely manner deprives custodial parents and their children of needed child support. Failure to account for funds received and to promptly update case records creates unreliable financial records. When tax intercepts are not properly and promptly recorded, the child support enforcement office may continue to pursue collection of debts that have already been satisfied, causing noncustodial parents considerable frustration and needlessly wasting scarce child support enforcement resources.

Recommendation

The Director of Child Support should comply with federal regulations for the child support enforcement program and ensure funds are distributed timely to custodial parents. In addition, the Director of Child Support should ensure case records are updated to reflect the changes in arrearage balances. The commissioner should frequently monitor the distribution of child support payments to ensure accurate and timely distributions are made. The failure to make accurate and timely distributions should result in appropriate administrative action.

Management's Comment

We concur that distributions of IRS offsets were not always made within required time frames. During the audit period, the department was still in the transition process to the new system (TCSES) for IRS processing. We were also continuing to resolve the IRS processing backlog from previous periods. All IRS processing is now being performed in TCSES. We do expect that IRS offset collections will be processed within required time frames. The local offices do receive, and have in past years received, reports of all IRS offset collections.

Finding Number	98-DCS-03
CFDA Number	93.645
Program Name	Child Welfare Services – State Grants
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9001TN1407 through 9801TN1407
Finding Type	Reportable Condition, Allowable Costs/Cost Principles
Questioned Costs	$776.33

Failure to resolve disciplinary issues in a timely manner resulted in the inappropriate use of state and federal funds for administrative leave with pay

Finding

The Department of Children's Services did not resolve disciplinary issues within a timely manner. In three instances, employees of the department were put on administrative leave with pay while investigations into alleged wrongdoing were being conducted. These employees remained on administrative leave with pay for 1,247 hours, 1,316 hours, and 1,285 hours, for an average of eight and a half months each. Review of the investigation files and the employees' personnel files, revealed that in all three cases, sufficient evidence existed early in the investigation either to remove the employee from administrative leave with pay or to dismiss the employee. There were many consecutive months during each investigation when no action was taken to resolve the matter. Therefore, the employees were not reporting to work, but were being paid even after there appeared to be sufficient evidence at least to put the employees on administrative leave without pay until resolution of the disciplinary issues. Two of the employees were eventually terminated and the other employee was reassigned to different job duties.

One of the employees was investigated for not performing her job duties adequately. It was found that the employee had not performed her job duties satisfactorily and the employee was reassigned to different job duties. Another employee was investigated for falsifying her employment application by not including a previous employer on her application. The employee had been criminally charged with grand larceny from this previous non-state government employer. In addition, the employee took sick leave when she was arrested on these charges. This employee was eventually terminated. The third employee was investigated for misappropriation of state funds and misuse of state property; this employee was eventually terminated for gross misconduct.

Two of the employees' salaries were paid with federal program funds. Since these employees were not benefiting the program during the investigation, it does not seem reasonable that the department continued to use federal funds to pay their salaries. The programs charged are Title IV-E Adoption Assistance ($487.98), Title IV-E Foster Care ($10,163.16), Title IV-B ($776.33), Social Services Block Grant ($8,313.29), and Title XIX (TennCare) ($18,072.76). These payments are included in the Schedule of Findings and Questioned Costs in the Single Audit Report for the year ended June 30, 1998.

According to management, the disciplinary process was not handled timely because there were problems scheduling due process hearings and because of the number of investigations occurring at the same time. By not acting in a timely manner to resolve the disciplinary issues, the department misused federal and state funds.

Recommendation

The Commissioner should take appropriate steps to ensure that investigations and due process hearings are held in a timely manner. Employees under investigation should be taken off of administrative leave with pay as soon as there is sufficient evidence. In addition, the Assistant Commissioner of Fiscal and Information Services should be instructed not to use federal funds to pay salaries while an employee is on extended administrative leave with pay.

Management's Comment

We concur. Efforts are being made to ensure that investigations and due process hearings are held in a timely manner for a department with over 3,000 employees. A departmental policy will be developed so the Director of Fiscal Services will be notified when staff are on administrative leave with pay. Steps will then be taken to ensure that federal funds are not used to pay salaries while an employee is on administrative leave with pay status. The Commissioner has encouraged staff to proceed with appropriate action based on the testimony of investigators rather than wait for the release of written investigative reports.

In at least 50% of the cases handled by the department a grievant doesn't obtain an attorney or other representative in a timely manner to allow the hearing to go forward at the time and date set. This results in numerous delays and continuances in an attempt to coordinate all individual's (the grievant, the grievant's attorney, and the department's representative) schedules and that of the hearing officer's docket. During this time placing an employee on leave without pay could be considered as "taking action" which the department feels in most cases would be improper until the culmination of the investigation. The department will, however, make every effort to complete all investigations in a timely manner.

Finding Number	98-DCS-01
CFDA Number	93.658
Program Name	Foster Care – Title IV-E
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9501TN1401 through 9801TN1401
Finding Type	Reportable Condition, Eligibility
Questioned Costs	None

The department could not determine the location of children and their specific case and eligibility files in a reasonable period of time

Finding

The department could not determine the location of children and their specific case and eligibility files within a reasonable amount of time. The request for 75 case files for children receiving Title IV-E funds was made on August 3, 1998. It was six weeks later before all locations were provided and eight of the 75 locations provided (10.66%) were incorrect.

When the central office staff received the request for the locations of the 75 files, the list was emailed to the regional administrators. The central office staff chose this method as the most efficient way to locate the files, because the regional administrators are responsible for knowing this information. Because the location of the case files is not readily available at the central office, central office staff have to rely on field office staff across the state to determine where case files are located.

The purpose of having a centralized office is to organize and coordinate the efforts of the statewide department. This task could be more effectively performed if the central office had direct access to the location of the children and their case files. If the department's Comprehensive Operation and Review System (CORS) had correct information concerning the child's placement history, the information to locate the children and their files would be readily available.

Recommendation

The central office should take responsibility for knowing the location of all children in the system, as well as the location of all case and eligibility files. A system should be developed to give the central office on-line access to current and reliable information regarding the location of all children, their case files, and eligibility files. Case workers should be responsible for updating the information each time a child and the child's files are moved. Personnel in the central office should be able to access location information at any time without having to contact personnel in field offices across the state and wait six weeks to obtain needed information.

Management's Comment

We concur. The Internal Audit Division was and has been designated the contact between State Audit and the department. All files requested were given to that division for communication to the field for the location and delivery of files for review. A total of 186 files in 4 separate lists were requested from the DCS auditors and the TennCare auditors for review. The department will, however, work diligently in the future to locate requested files in a timely manner.

Finding Number	98-DCS-02
CFDA Number	93.658
Program Name	Foster Care – Title IV-E
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9501TN1401 through 9801TN1401
Finding Type	Material Weakness, Eligibility
Questioned Costs	None

Status changes for foster children are still not processed promptly

Finding

As noted in four previous audits, which covered the period July 1, 1993, to June 30, 1997, status changes for foster children are not processed promptly, resulting in overpayments. Because of the seriousness of this weakness in internal controls, it will be reported as a material weakness in the 1998 Tennessee Single Audit report.

As stated in management's comments to the prior finding, the Children's Plan Financial Information System (ChipFins) database is now updated by the caseworkers when a child's foster care placement changes. However, when caseworkers do not enter placement changes in ChipFins before the next benefit payment cut-off date, payments will continue to be made to foster parents or vendors. If caseworkers do not enter the placement changes timely, they must submit change-in-status adjustment forms to the central office to correct the over- or under- payments. As indicated in management's comments to the prior audit finding, the department began preparing monthly reports which show the adjustment forms received, and the amount of the changes by caseworker. Starting in January 1998, the report was provided to central program staff as well as to the Regional Administrators for their review to determine why the changes are not being made timely by the caseworkers.

Adjustment forms for the time period January through June 1998 show that 615 adjustments were made, totaling $248,822.40 in overpayments and $19,792.73 in underpayments. The department paid the total amount of underpayments to the vendors. However, Children's Services could not determine, nor was it willing to take the time to calculate. the amount of collections it had received for the overpayments. Had the department properly accounted for these collections, this information would have been readily available and would not have taken extra time to complete. The inability of fiscal staff to determine collections made against overpayments shows a complete lack of concern for proper accountability and disregard of monies owed the state.

Since the department started preparing and reviewing the monthly reports, the number of adjustments has decreased, but it appears that there is still a problem with status changes not being made timely by the caseworker.

Furthermore. this monthly report of adjustments shows when status changes were made late, but does nothing to determine if status changes should have been made. but were not. A review of case files by caseworkers' supervisors would be necessary to ensure that the caseworkers are preparing status changes accurately and timely.

Recommendation

The Assistant Commissioner for Program Operations should enforce the department's procedures to ensure caseworkers enter child placement information in ChipFins timely. These procedures should include a requirement that the caseworkers' immediate supervisor examine case files regularly to ensure placement data is being entered into ChipFins accurately and timely. Management should follow up on these reviews to ensure they are being performed and take disciplinary action against caseworkers who fail to comply with the new procedures.

In addition, management should properly account for collections made against overpayments as a part of effective accounts receivable procedures.

Management's Comment

We concur, however, the department has made significant efforts to address this issue. Starting in March 1998 the Fiscal Division started tracking the number of status changes submitted to that office from field staff. This process was initiated after Internal Audit did an initial analysis for the period of January through September of 1997. This initial analysis was given to the Regional Administrators to indicate problem counties where this issue needed to be addressed more specifically. The report from the Fiscal Division has been provided to the Director of Regional Services and Internal Audit monthly. The Director of Regional Services has distributed this report to the Regional Administrators for follow-up action to address any indicated problems. Internal Audit has prepared three month trend analyses which are reported to the Director of Regional Services and the Deputy Commissioner. These three month analyses indicate that the status changes submitted to the Fiscal Division have dropped from $81,700 in the three month period ending May 1998 to $34,447 in the three month period ending November 1998. Adjustment reports will continue to be provided and the work of case managers monitored regularly. See finding 98-DCS-05 for information concerning the department's accounts receivable software request.

In addition, the department now has case managers assigned to specific foster homes. Each of those case managers has the responsibility of data entry for each child entering or exiting the assigned homes. It has been made apparent that timely data entry is a major job responsibility for this position and that disciplinary action will be and has been taken when a case manager is habitually late with data entry. A policy has been implemented that requires a 25% review of all case files per quarter per region. This would result in a 100% review over a 12 month period. At the time of the review the data included in the case file is to be checked against the data in ChipFins, CORS, and/or TnKids. This policy has an effective date of 1/11/99.

Finding Number	98-DCS-03
CFDA Number	93.658
Program Name	Foster Care - Title IV-E
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9501TN1401 through 9801TN1401
Finding Type	Reportable Condition, Allowable Costs/Cost Principles
Questioned Costs	$10,163.16

Failure to resolve disciplinary issues in a timely manner resulted in the inappropriate use of state and federal funds for administrative leave with pay

Finding

The Department of Children's Services did not resolve disciplinary issues within a timely manner. In three instances, employees of the department were put on administrative leave with pay while investigations into alleged wrongdoing were being conducted. These employees remained on administrative leave with pay for 1,247 hours, 1,316 hours, and 1,285 hours, for an average of eight and a half months each. Review of the investigation files and the employees' personnel files, revealed that in all three cases, sufficient evidence existed early in the investigation either to remove the employee from administrative leave with pay or to dismiss the employee. There were many consecutive months during each investigation when no action was taken to resolve the matter. Therefore, the employees were not reporting to work, but were being paid even after there appeared to be sufficient evidence at least to put the employees on administrative leave without pay until resolution of the disciplinary issues. Two of the employees were eventually terminated and the other employee was reassigned to different job duties.

One of the employees was investigated for not performing her job duties adequately. It was found that the employee had not performed her job duties satisfactorily and the employee was reassigned to different job duties. Another employee was investigated for falsifying her employment application by not including a previous employer on her application. The employee had been criminally charged with grand larceny from this previous non-state government employer. In addition, the employee took sick leave when she was arrested on these charges. This employee was eventually terminated. The third employee was investigated for misappropriation of state funds and misuse of state property; this employee was eventually terminated for gross misconduct.

Two of the employees' salaries were paid with federal program funds. Since these employees were not benefiting the program during the investigation, it does not seem reasonable that the department continued to use federal funds to pay their salaries. The programs charged are Title IV-E Adoption Assistance ($487.98), Title IV-E Foster Care ($10,163.16), Title IV-B ($776.33), Social Services Block Grant ($8,313.29), and Title XIX (TennCare) ($18,072.76). These payments are included in the Schedule of Findings and Questioned Costs in the Single Audit Report for the year ended June 30, 1998.

According to management, the disciplinary process was not handled timely because there were problems scheduling due process hearings and because of the number of investigations occurring at the same time. By not acting in a timely manner to resolve the disciplinary issues, the department misused federal and state funds.

Recommendation

The Commissioner should take appropriate steps to ensure that investigations and due process hearings are held in a timely manner. Employees under investigation should be taken off of administrative leave with pay as soon as there is sufficient evidence. In addition, the Assistant Commissioner of Fiscal and Information Services should be instructed not to use federal funds to pay salaries while an employee is on extended administrative leave with pay.

Management's Comment

We concur. Efforts are being made to ensure that investigations and due process hearings are held in a timely manner for a department with over 3,000 employees. A departmental policy will be developed so the Director of Fiscal Services will be notified when staff are on administrative leave with pay. Steps will then be taken to ensure that federal funds are not used to pay salaries while an employee is on administrative leave with pay status. The Commissioner has encouraged staff to proceed with appropriate action based on the testimony of investigators rather than wait for the release of written investigative reports.

In at least 50% of the cases handled by the department a grievant doesn't obtain an attorney or other representative in a timely manner to allow the hearing to go forward at the time and date set. This results in numerous delays and continuances in an attempt to coordinate all individual's (the grievant, the grievant's attorney, and the department's representative) schedules and that of the hearing officer's docket. During this time placing an employee on leave without pay could be considered as "taking action" which the department feels in most cases would be improper until the culmination of the investigation. The department will, however, make every effort to complete all investigations in a timely manner.

Finding Number	98-DCS-04
CFDA Number	93.658
Program Name	Foster Care - Title IV-E
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9501TN1407 through 9801TN1407
Finding Type	Material Weakness
Questioned Costs	None

The department continues to issue duplicate payments and overpayments to vendors; $185,288.52 was returned or refunded voluntarily by vendors

Finding

As noted in four previous audits covering the period July 1, 1993, to June 30, 1997, the Department of Children's Services issued many duplicate payments and overpayments to vendors for goods and services provided to children. During fiscal year 1998, vendors voluntarily made over 140 refunds totaling $101,759.63 and returned 305 original checks totaling $83,528.99. Management concurred with the prior audit finding and stated that computer system edit changes were made to certain programs and that accounting and receivable staff would be providing fiscal management information explaining why the original checks and refunds were being returned to the department. According to management, the edit changes were made to the residential, prevention, and wraparound programs in fiscal year 1998. Reports concerning returns of original checks were provided to fiscal management starting in fiscal year 1999. However, it does not appear that the corrective action taken by the department was timely or completely effective. While the total dollar amount of duplicate payments and overpayments is significantly lower than the total in prior findings, the total number of original checks returned increased. This suggests that the significant decrease in the total dollar amount was not due to the implementation of good internal controls. Because of the seriousness of this weakness in the department's internal controls, it will be reported as a material weakness in the 1998 Tennessee Single Audit report.

Examples of some of the duplicate payments and overpayments are as follows:

- Nineteen overpayments were made to a discount store.
- Twelve duplicate payments were made to a mail delivery service.
- Six overpayments were made to deceased vendors. Four of these payments were made to the same vendor over a two month period.

The duplicate payments for goods or services could not be precisely explained. Vendors may have unintentionally submitted claims twice; vendors may have resubmitted original claims because they had not received prompt payment; or two separate parties involved with securing goods and services for the child may each have submitted the claim, unaware the other party had already submitted the claim.

Implementing computer system controls would decrease duplicate payments and overpayments to vendors and reduce the staff time required to process refunds and cancel warrants.

Recommendation

The Assistant Commissioner of Fiscal and Information Systems should take appropriate measures to establish adequate internal controls that will eliminate duplicate payments and overpayments. These controls should include ongoing procedures and processes to monitor the effectiveness of the controls and to ensure appropriate compliance with control procedures.

In addition, responsibility should be assigned to a specific person to monitor the reasons why duplicate payments and overpayments are being made and take appropriate action to greatly reduce these payments. Computer edit checks should be developed for expenditures other than residential, prevention, and wraparound.

Management's Comment

We concur. It is important to point out that overpayments for 1997-98 are less than .05% of the budget for the department. There were a total of 73,214 warrants issued in 1998 and only 305 were canceled according to the finding. This represents .4% of the warrants issued. This is not to indicate that the department is not continuing to address additional improvements in this area but the amount in the finding is only .07% ($185,288.52/241,579,013.95) of the department's total disbursements.

Beginning April 1999, comprehensive reports on canceled warrants and refund checks are being prepared by fiscal staff and shared with the Director of Fiscal Services on a regular basis. Analysis of these reports will indicate the areas that should be targeted for improvement and the type of action that should be taken. A request has been sent to Information Resources to establish a database program to help locate duplicate entries for TOPS/STARS invoices. This program would list the invoice number, date, vendor name and the amount of the invoice. As new invoices are entered the system would check for any duplicates based on the invoice number and/or the amount.

Auditor's Comment

It should be noted that the dollar amounts and number of refunds and returns in the finding only represent the known overpayments. The actual amount of overpayments that have not been returned by the vendors is unknown.

Finding Number	98-DCS-05
CFDA Number	93.658
Program Name	Foster Care - Title IV-E
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	Various
Finding Type	Material Weakness, Allowable Costs/Cost Principles
Questioned Costs	$1,225,133.76

Since 1993 Children's Services still fails to collect overpayments; uncollected overpayments totaling at least $1,225,133.76 are due from foster care and adoption assistance parents, and overpayments to other vendors are not determinable

Finding

As noted in four previous audits, from July 1, 1993, to June 30,1997, Children's Services still has uncollected overpayments due from foster care and adoption assistance parents, as well as indeterminable vendor overpayments. Management concurred with the prior audit finding and stated that formal written procedures would be drafted; that the remittance advice would be modified to include the current balance due, the department's address, and telephone number; and that letters would be sent to all foster care and adoption assistance parents who owe the department money. Formal written policies and procedures were finalized for adoption assistance and foster care parents; however, no policies and procedures for overpayments were noted for other types of vendors. The remittance advice was updated to include the above-mentioned information and letters were sent to foster care and adoption assistance parents who owed the department money. However, as of June 1998, the department's records indicated an outstanding accounts receivable balance for these parents totaling $1,225,133.76, a decrease of only $49,307.36 (3.9%) since August 1997. In addition, Children's Services continued to overpay foster care and adoption assistance parents during the audit period. Because of the seriousness of this weakness in the department's internal controls, it will be reported as a material weakness in the 1998 Tennessee Single Audit report.

Some procedures have been implemented to help identify overpayments to foster parents. When a child is removed from a foster home, the Department of Children's Services' caseworker is supposed to enter this status change directly into the Children's Plan Financial Information System (ChipFins). If the information is not entered, payments will continue until the caseworker enters new foster home placement information. Therefore, if a child is removed from a foster home and placed into a residential facility, the foster parents in the original placement will continue to receive semimonthly foster care payments until the department is notified by the foster parent or caseworker of the overpayment. However, as noted in finding 13, status changes for foster children are not entered into ChipFins promptly, resulting in overpayments.

In addition to foster care and adoption assistance parents, vendors were also overpaid (see 98-DCS-04). Many of these overpayments were collected only because the vendor returned the original check or sent a refund to the state, not because the department's system detected these overpayments. The department's method of collecting identified overpayments is to reduce subsequent payments to the vendor until the balance is recovered. However, if the vendor does not receive subsequent payments, the department has no procedure in place to collect the overpayments. The accounts receivable balance for overpayments made to vendors could not be determined because complete information was not available from the department's computer systems.

During the audit period, Children's Services requested to write-off $287,254.32 of uncollectible foster care overpayments made through the former foster care parents payment system. This request was denied due to the department's failure to follow the Rules of Department of Finance and Administration, Chapter 0620-1-9, "Policy and Procedure Governing the Write-Off of Accounts Receivable." As part of the justification for the write-off, the department stated in the memorandum to Finance and Administration that the vendors no longer had a relationship with the department. However, two of 25 foster care parents tested (8.0%) on the write-off list were active foster care parents. These foster parents had also been active prior to the write-off request and the department did not deduct the amounts owed out of their foster care payments. After further inquiry, auditors were told that no one in the department had checked to see if any of the vendors were active as of the date of the write-off request. The department also stated in their memorandum to Finance and Administration that the vendors did not reply to the letters sent to them. However, during our review, we found that some of the vendors had requested additional information concerning their accounts receivable balance. Therefore, there was additional correspondence with the vendors on file at the department, such as detailed listings of payments and dates. However, there was no evidence in the file to indicate that the department made any attempt to collect the receivable after the additional information was sent to the parent. The rules relative to write-off of accounts receivable specify that at least three documented attempts should be made to collect overdue accounts prior to any decision to write-off the account. Also, a final effort to collect the accounts should be made by the legal staff of the department. Children's Services had only two documented attempts to collect the accounts and the legal staff had made no effort to collect the accounts.

Recommendation

Accounts receivable write-offs should not be requested until all necessary collection attempts, including action by legal staff, are made in accordance with the Department of Finance and Administration, Chapter 0620-1-9, "Policy and Procedure Governing the Write-Off of Accounts Receivable." The Commissioner should determine who is responsible for submitting unverified accounts receivable write-off information to the Department of Finance and Administration and the Comptroller of the Treasury and take the appropriate disciplinary action. The Assistant Commissioner of Fiscal and Information Services and the Director of Fiscal Services should ensure that staff determine the accounts receivable due from all vendors and take the appropriate measures to collect amounts due. Formal written procedures should be prepared and issued for overpayments made to vendors other than foster care and adoption assistance parents.

Management's Comment

We concur in part. It is true that the department has not developed policies and procedures for the collection of overpayments from vendors other than foster and adoption assistance parents, however, it has made policies and procedures available to all staff for the latter. The department has inherited numerous problems and is trying to address these as time permits while continuing to process daily transactions and handle immediate crises. The department continues to move toward a complete manual of fiscal policies and procedures.

The Fiscal Division prepares a monthly report of the requested ChipFins adjustments necessary to correctly reflect the location and, therefore, payments connected with foster children. This report identifies by county adjustments that result in an overpayments. This report is utilized by the Fiscal Division to implement collection procedures and by the program staff to address case management that has resulted in the overpayment. The total dollar amount of ChipFins adjustment reports received from January 1998 through January 1999 amounts to approximately $365,000 in overpayments. During this period there were on average 1,673 DCS foster parents serving an estimated 3,667 foster children. The total annual DCS foster care payments are about $17,000,000 at approximately $1,350,000 monthly. This indicates that the total of the reported ChipFins adjustments received for 12 months is roughly equal to 2% of the annual DCS foster care payments ($365,000/$17,000,000).

An accounts receivable software package has been requested for use until the completion of the financial management phase of the TnKids system. This phase of TnKids has been approved and will be started immediately after the eligibility phase is completed which is expected to be completed is 6 months. The ChipFins system for foster care parents payments does show a balance due which is reduced for each pay period (50% of each of the two payments made monthly) by the amount recovered until the amount due from that individual foster parent is indicated to be zero. ChipFins is also used for adoption assistance parents with payments made once a month. Please see finding 98-DCS-02 for the department's efforts to eliminate overpayments to foster care parents by case file reviews.

The Information Resources staff, for fiscal year 1998-1999, developed a monthly report which is being sent to the Director of Regional Services to identify overlapping dates of service for foster care children and residential providers information concerning the location of a child. These reports are being distributed to the Regional Administrators to be reviewed (effective April 1999) and corrections made. Notification of any corrections are to be furnished to the fiscal office. At that point the fiscal division will take action to collect any overpayments.

The write-off issue resulted from a miscommunication between the Fiscal Director and accounting staff. The department will make every effort in the future to be sure instructions are clearly communicated. In addition, regarding the legal issue, the department will determine the action to be taken after the Department of Finance and Administration releases the final draft of its comprehensive accounts receivable policy. The department sees no benefit from developing a policy at thistime which may be unnecessary after the issuance of this accounts receivable policy.

Finding Number	98-DCS-06
CFDA Number	93.658
Program Name	Foster Care – Title IV-E
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9501TN1401 through 9801TN1401
Finding Type	Material Weakness, Subrecipient Monitoring
Questioned Costs	None

Children's Services' subrecipient monitoring system is inadequate

Finding

The department did not have all monitoring reports and did not examine audit reports as part of the monitoring process for its subrecipients. The department has contracted with the Department of Finance and Administration (F&A) to perform monitoring of the department's subrecipients. The contract requires the department to approve corrective action plans submitted by the subrecipient responding to audit findings from the monitoring reports. However, no one in the department has been reviewing the monitoring reports, approving corrective action plans submitted by the subrecipients, or taking any further action that may be deemed necessary by the program specialists.

Not only has the department not been approving corrective action plans, but in many cases, the department did not even have a copy of the monitoring report on file. Office of Management and Budget Circular A-133 states that a pass-through entity is responsible for monitoring the subrecipient's activities to provide assurance that the subrecipient administers Federal awards in compliance with Federal requirements. In addition, the circular states that the entity is to ensure that required audits are performed and require the subrecipient to take prompt corrective action on any audit findings. The department did have audit reports on file for subrecipients, but the personnel responsible for subrecipient monitoring did not have access to these reports. If the department does not have the monitoring reports and does not examine audit reports as part of the monitoring process, the department cannot ensure that its subrecipients are administering the federal awards in compliance with federal requirements.

The department could not provide five of 15 (33%) subrecipients' monitoring reports or corrective action plans for subrecipients monitored during the audit period. In addition, the department could not provide documentation indicating approval of the corrective action plans for eight of 15 subrecipients (53%) monitored during the audit period. Because of the seriousness of the internal control weaknesses associated with subrecipient monitoring, this will be reported as a material weaknesses in the 1998 Tennessee Single Audit report.

Recommendation

The Assistant Commissioner of Programs and the Director of Programs should establish a tracking system to ensure all monitoring reports have been received and are on file at the department. The tracking system should document the name of the person who is responsible for reviewing the report and whether the corrective action plan was submitted by the subrecipient. The tracking system should also document whether the corrective action plan was acceptable and the date the subrecipient was made aware of the acceptance or denial of the corrective plan. There should be periodic reviews of these tracking reports by someone in upper management to ensure that corrective plans are being received and reviewed.

Management's Comment

We concur. The department will take action to insure that monitoring reports are reviewed and that corrective action plans are submitted. Corrective action plans will be reviewed for appropriateness with documented notification made to the subrecipient of acceptance or rejection of the plan. Internal Audit shall obtain from the Department of Finance and Administration a listing of all monitoring activities scheduled and verify that the reports are received by the department.

Finding Number	98-DCS-07
CFDA Number	93.658
Program Name	Foster Care – Title IV-E
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9501TN1401 through 9801TN1401
Finding Type	Material Weakness, Equipment and Real Property Management
Questioned Costs	$11,977,359.95

The department did not understand or chose to disregard federal guidelines when purchasing equipment with Foster Care Title IV-E funds, which has resulted in $11,977,359 in questioned costs

Finding

During the years 1996 through 1998, the department did not comply with federal regulations when purchasing equipment to develop a Statewide Automated Child Welfare Information Systems (SACWIS) under Title IV-E Foster Care. Because of the many noted instances of noncompliance with the Title IV-E SACWIS regulations, it appears management either does not have a clear understanding of the regulations, or has chosen to disregard them. The seriousness of this weakness in internal controls will be reported as a material weakness in the 1998 Tennessee Single Audit Report. Because of the material noncompliance by the department with the SACWIS regulations, the report on compliance for Foster Care, Title IV-E will be qualified, and a total of $11,977,359 will be included in the Schedule of Findings and Questioned Costs in the 1998 Tennessee Single Audit Report. The material instances of noncompliance by the department and the questioned costs are described below:

a. When the department purchased equipment for its SACWIS system, it violated federal regulations and circumvented state purchasing procedures. In addition, as discussed in finding 3, the department did not have any internal controls in place during the purchasing and installation of the equipment. Because of the many federal noncompliance issues noted, the entire amount spent by the department for the purchase of the equipment, which totaled $11,013,744, will be questioned. The specific noncompliance issues are as follows:

   - The department did not cost allocate the use of the equipment at the time the equipment was purchased. The cost/benefit analysis included in the department's Advanced Planning Document, which was presented to the U.S. Department of Health and Human Services, misrepresented how the equipment purchased with Title IV-E funds was being used. The cost/benefit analysis shows that the program share of costs was 100% Title IV-E. However, from the outset the equipment was being used to support programs other than Titles IV-E and IV-B, such as Social Services Block Grant and juvenile justice activities. U.S. Department of Health and Human Services, ACF Action Transmittal No. ACF-OISM-001, page 10, section B states:

     > Equipment acquired solely to support the activities of State or contract staff administering the programs under the approved State plan under Title IV-B or IV-E may be charged to Title IV-E. Equipment which is acquired to support other individuals or programs must either be direct-charged to the other agency or program, or

> allocated among all appropriate funding sources, dependent upon whether the equipment is used partially for the programs under Titles IV-E or IV-B....

- Equipment purchased with Title IV-E funds was being used at the youth development centers. However, because children in these centers are not eligible for Titles IV-E or IV-B, equipment purchased with Title IV-E funds should not be used at these locations. Based on our review of the Property of the State of Tennessee System (POST) and information related to the equipment's funding, there are 327 equipment items purchased with Title IV-E funds at the youth development centers.

- The department purchased equipment up to two years in advance of its use to take advantage of an enhanced federal financial participation rate. When the equipment was purchased, it was stored in a warehouse prior to being installed across the state. As of December 1998, there was still some equipment stored at the warehouse which had been purchased between June and September 1996. This equipment has been stored in the warehouse for over two years without being used by the department. U.S. Department of Health and Human Services, ACF Action Transmittal No. ACF-O1SM-001, page 4, states in part:

  > While we realize that many States have expressed great interest in acquiring hardware immediately to take better advantage of enhanced funding, it is not our intent to approve enhanced FFP for early installation of equipment that will not be utilized until the application software is complete, not to provide enhanced funding solely for the installation of local office automation (hardware and software), which would normally be funded only at the regular FFP rate.

  Based on discussions with warehouse management, the equipment consisted of approximately 23 personal computers, 12 computer monitors, four laptops, five laser printers and numerous mouse pads and surge protectors. Warehouse management has stated that some of these items, approximately three personal computers and all of the laptops, were labeled as "bad," because they would not operate properly. However, the probability that these items can be returned to the vendor after such a long period is highly unlikely. Some of the equipment sent to the Community Services Agencies was sitting idle in boxes for up to a year and a half. Management stated this was because TnKids was not functional. Management also has stated that the equipment was purchased early for training purposes. However, it is our opinion that equipment stored in warehouses or sitting in boxes is clearly not being used for training purposes.

b. The department requested the purchase of 19 computer servers by the Department of Finance and Administration, Office for Information Resources (OIR). Thirteen of the 19 servers (68.42%) were purchased early and were not in use during the audit period. This would be in violation of the ACF Action Transmittal No. ACF-O1SM-001, page 4 as quoted above. Although the servers were purchased by OIR, the department is charged depreciation costs over a five-year period. The department charged the depreciation to Title IV-E. The total questioned cost for this depreciation is $514,163.

c. The department charged expenditures at the enhanced federal financial participation rate that were not eligible to be paid at that rate. The difference between the enhanced rate (75%) and the regular rate (50%) resulted in $449,452.61 in questioned costs. These expenditures consisted of maintenance and data processing, supplies, operational supplies, and professional and administrative services. U.S. Department of Health and Human Services, ACF Action Transmittal No. ACF-OISM-001, page 8, states in part:

> The State may not claim enhanced funding under Title IV-E for activities related to the following:
>
> - Equipment repair or maintenance;
> - Operational costs incurred prior to the completion of statewide operation;
> - Workstation supplies;
> - Contractor and State resources to support the system's operation once post-pilot conversion begins (e.g. help desk activities, system enhancements, warranty work, or maintenance agreements); and
> - Administrative costs, which are otherwise considered operational, such as those related to office space, office equipment, telephones, furniture, or supplies.

The department's inability or unwillingness to follow federal guidelines could result in lost federal revenue to the state or could result in the state having to refund federal funds that were spent inappropriately.

In addition to the problems noted in this finding, management did not have adequate internal controls during the purchase and installation of the equipment, which resulted in the department not having an accurate accounting of the equipment. These problems are discussed in more detail in finding 98-DCS-08.

Recommendation

The Commissioner should ensure that all noncompliance with federal regulations is corrected and any inappropriately used federal funds are returned immediately and should determine who is responsible for these significant violations of federal regulations and take appropriate disciplinary action.

The Assistant Commissioner of Fiscal and Information Systems and the Director of Information Systems should become familiar with SACWIS regulations and ensure that these regulations are followed. Blame for the many problems noted with the Title IV-E funded equipment should not be shifted down to personnel below the management level when it is apparent that management has made the decisions on every aspect of this project. A cost allocation plan should be developed to properly reflect the usage of the equipment, and no further purchases should be made without the intent to comply with federal requirements for cost allocation. Once a cost allocation plan has been developed, the department should implement the plan retroactively and refund the federal government for the misuse of Title IV-E funds. The amount of depreciation costs charged to the department for the unused servers should be refunded to the federal government. The department should return to the federal government the difference between the regular federal financial participation rate and the funds that were inappropriately drawn at the enhanced federal financial participation rate. In the future, the department should not purchase equipment until it can be installed and placed into operation in a timely manner.

Management's Comment

We concur in part. First, the issue stating, "the department did not have any internal controls in place during the purchasing and installation of equipment," and the issue of equipment located at the Local Government Data Processing warehouse in Columbia, Tennessee have been addressed in the response to finding 98-DCS-08. In addition, the department concurs with the part of the finding that relates to the equipment stored at the CSAs for a year and a half without being placed in use. The equipment was Sun Servers which were purchased for training and which the department is currently using for that purpose.

Second, the Advanced Planning Document submitted to the federal government, though approved, was in error when indicating how costs for equipment were to be allocated. An updated cost allocation plan for the equipment is being developed that will more accurately reflect the intent of the programs functions and, therefore, the use of equipment. Subsequent to the audit, discussions with the federal government's representatives, as part of the current cost allocation methodology being developed to address this issue, have indicated to the department that programs benefiting from the development of TnKids could be funded by Title IV-E and SACWIS as long as the benefit was secondary to the primary functionality developed for SACWIS requirements. After federal approval, any future Title IV-E funded computer purchases will have to be consistent with the cost allocation plan currently being developed and a retroactive approval will be requested for the initial purchases of equipment.

Third, through approvals of the submitted Advanced Planning Documents, federal staff approved the "early roll-out" of Title IV-E funded equipment contingent on the approval of a final implementation APD for the entire SACWIS project. The purpose for the early roll-out was not to capture soon-to-expire enhanced funding, but rather to allow nearly 3100 proposed DCS staff throughout the state the opportunity to become accustomed to new computer technology and to employ office automation support as a part of the new departments early experience. The statement in the finding that some of this equipment was ultimately to be used for TnKids training is accurate. That equipment is now being used as the department begins its "initial" TnKids training in the pilot Southeast Region, however, the department concurs that this equipment shouldn't have been purchased two years in advance.

Fourth, the finding that the department "charged expenditures at the enhanced federal financial participation rate that were not eligible to be paid at that rate" is accurate. All system costs were analyzed by information resources staff and submitted to the fiscal unit by a schedule indicating the cost center and grant to be used to record each transaction in STARS. The environment which allowed this type of accounting responsibility to be assigned to the information systems unit has been addressed. The department is currently developing policies and procedures to address situations throughout the department that should require participation by the fiscal unit in decision making situations. Costs incorrectly charged to the enhanced rate have been identified and will be adjusted on the required federal reports and on STARS.

Finally, questioning the total purchase amount indicates that none of the equipment was purchased and accounted for appropriately. This is not the case. Though the department acknowledges some non-compliance issues in the purchase and recording of equipment the majority of the funds utilized will be determined to be appropriately allowed by the federal government.

Finding Number	98-DCS-08
CFDA Number	93.658
Program Name	Foster Care – Title IV-E
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9501TN1401 through 9801TN1401
Finding Type	Material Weakness, Equipment and Real Property Management
Questioned Costs	None

The department circumvented state purchasing policies and procedures and had no internal controls in place during the purchasing and installation of equipment purchased with federal funds

Finding

State purchasing procedures were circumvented when the department purchased $11,013,744.31 of equipment with federal funds. See finding 98-DCS-07 for federal noncompliance issues related to this purchase. In addition, the department had no internal controls in place during the purchasing and installation of the equipment. Since 1996, the department has purchased equipment with Title IV-E funds. The majority of this equipment was purchased during fiscal years ended June 30, 1998, and June 30, 1997.

Review of purchase orders and corresponding invoices shows that equipment was ordered and/or received before purchase orders were generated or approved. For six purchase orders, which totaled $6,083,532.07, vendor invoices showed that the equipment was ordered before the purchase orders were approved. Additionally, one vendor invoice showed that equipment was ordered and received by the department before the purchase order was approved.

At the time of the purchase, department personnel did not record essential information in the Property of the State of Tennessee system (POST), which identifies the equipment as federally funded, due to lack of training and proper supervision. Grant information (i.e., grant number and percentage of federal funds) was not entered into POST. The department must be able to distinguish between state and federally funded property, because federally funded property has restrictions on both the usage and disposal of property. By not entering the funding information into POST, the department could not identify specific items purchased with Title IV-E funds. Therefore, the department had no way of determining whether it was in compliance with federal regulations. In certain instances, the federal regulations require reimbursement for dispositing of equipment acquired with federal funds. Without an accurate accounting for the equipment's funding, the department has no way to ensure that the federal awarding agency would be appropriately reimbursed when this equipment is disposed.

As of December 1998, the department was unable to provide a listing of equipment purchased with Title IV-E funds. The department attempted on two occasions to identify equipment purchased with Title IV-E funds. However, by performing testwork and analytical procedures, each listing was found to contain significant errors. We performed analytical procedures on all purchase orders identified as funded with Title IV-E. Nine of 36 purchase orders (25%) did not have the correct number of items entered on POST when compared with the number of equipment items ordered (purchase order) and received on the corresponding invoice. At least five items entered on POST referenced the wrong purchase order. Part of this problem results from the department's failure to follow proper purchasing procedures.

The equipment was stored in a warehouse before it was installed in offices. Some equipment purchased between June and September 1996 was still stored at the warehouse in December 1998. This equipment has been stored in the warehouse for over two years without being used by the department. When the equipment was installed across the state, the locations of the equipment were not entered into POST.

Information Resources staff did not consistently provide documentation to Administrative Services staff when new computer equipment was installed or when old equipment was moved from one location to another. Also, no procedures were in place to ensure that Administrative Services staff followed up when new computer equipment was purchased to ensure that detailed information was provided on installation of the equipment. This failure in internal controls, caused by lack of communication between department personnel, prevented personnel from updating the location of Title IV-E funded equipment in POST. The other weaknesses noted were:

- Forty-nine of 184 locations (26.63%) were incorrect on POST for equipment at the central office. In addition, fifty-six of 80 locations (70%) were incorrect on POST for equipment at the Community Services Agencies. These error rates were noted after the department was given a period of four months to correct the location errors.
- Nine of 80 equipment items tested (11.25%) did not have the correct description on POST.
- Seven of 184 equipment items (3.8%) costing more than $1,000 were incorrectly charged to object code 099, which is Sensitive Minor Equipment costing $1,000 or less.
- Eight duplicate tag numbers were found while testing equipment at the central office.

Therefore, the department does not have an accurate accounting for the $11,013,744.31 in equipment and its location. Because of the seriousness of these weaknesses, a material weakness in internal control will be reported in the 1998 Tennessee Single Audit report.

Recommendation

The Commissioner should determine why the Assistant Commissioner of Fiscal and Information Systems is not familiar with state purchasing policies and, therefore, could not ensure these policies were followed. Blame for the many problems noted with the Title IV-E funded equipment should not be shifted down to personnel below the management level when it is apparent that management has made the decisions on every aspect of this project. Controls should be put into place to ensure that state purchasing procedures are followed and that all essential information is input into POST. POST should be corrected to include all equipment items purchased, grant number, and the federal financial participation rate for each item purchased with federal funds, and the correct locations for each item.

Management's Comment

We concur in part. The department concurs that purchasing rules were "unintentionally" violated regarding the issuance of purchase orders prior to ordering and receipt of equipment during the formative months of the department.

All equipment was appropriately acquired through contracts established by the Department of General Services by utilization of the statewide contracts for procurement of computer equipment. The equipment was acquired through the Department of Finance and Administration's equipment revolving fund (Fund 15). Vendors were notified of the department's intent to purchase certain equipment so that availability by the vendor could be maintained. In a few instances, the vendor, on it's own initiative, shipped the equipment prior to receipt of the purchase order. This occurrence was not due to the department's request for delivery prior to the receipt by the vendor of a purchase order.

During this process the Division of Information Resources had assumed the role of managing the movement of computer equipment. As information was received from Information Resources the POST system was updated to reflect location changes. As time progressed, it became evident these controls were not adequate. Movement of computer equipment was not being properly documented, nor forwarded to Administrative Services for entry into POST, and follow-up efforts by Administrative Services were inadequate. A major effort has been undertaken by the department to implement controls to completely change the department's inventory control system and prevent problems from recurring. This effort includes the correction of computer information which created discrepancies on the POST system, controls to assure that future purchases will be properly processed, and that funding information will be entered at the time the purchase order is generated.

Finally, questioning the total purchase amount indicates that none of the equipment was purchased and accounted for appropriately. This is not the case. Though the department acknowledges some non-compliance issues in the purchase and recording of equipment the majority of the funds utilized will be determined to be appropriately allowed by the federal government.

Finding Number	98-DCS-09
CFDA Number	93.658
Program Name	Foster Care – Title IV-E
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9501TN1401 through 9801TN1401
Finding Type	Material Weakness, Cash Management
Questioned Costs	None

The department has improperly managed state cash by not charging the appropriate federal grant at the time the initial expenditure transaction is made

Finding

As noted in three previous audits covering the period July 1, 1994, to June 30, 1997, the Department of Children's Services pays expenditures with state dollars initially and later reallocates the expenditure to the appropriate federal grant, creating significant time lapses between disbursements of state funds and actual drawdowns of federal funds. As a result, the state is losing interest income on and the use of state money used to fund federal expenditures. Because of the seriousness of these inadequate cash management policies and procedures, a material weakness in internal controls will be reported in the 1998 Tennessee Single Audit report.

Management concurred with the prior finding and stated a new computer system was put into place that would facilitate the drawdown process. According to management, the new system has been put into place; however, the system will not completely eliminate the problems noted in the prior audit. Management also stated in the prior audit report that the proposed financial management system of TnKids would be needed to fund expenditures by each child from multiple grants based on different eligibility requirements. However, as stated in previous findings in this report, the financial management part of TnKids has not even been approved by the Management Advisory Committee and has no timetable for implementation. Management also stated in prior comments that it is evaluating the practicality of developing computer programs to improve the current processing until the implementation of TnKids. According to management, the evaluation determined that changes could be made to the system to improve the processing of drawdowns until the implementation of TnKids. However, these changes have not been made.

According to the Department of Finance and Administration's Policy 20, "Recording of Federal Grant Expenditures and Revenues," Section 20-02-203, all grant-related expenditure transactions must be coded to the appropriate grants at the time the initial transaction is recorded.

During testwork on the department's two major federal programs, the following was noted:

- Title IV-E - All 60 expenditures tested were charged to the federal grant from three to 46 days after the initial transaction was paid with state dollars.
- SSBG - Twenty-two of 40 expenditure items tested (55%) were charged to the federal grant from ten to 61 days after the initial transaction was paid with state dollars.

The Foster Care Title IV-E program requires child-specific eligibility, but the SSBG grant does not. However, until the department charges all grants at the time the transactions occur, it will have problems with all grants, child-specific or not, due to their methods of funding. This will in turn cause improper management of the state's cash.

Recommendation

The Assistant Commissioner for Fiscal and Information Systems should ensure policies and procedures are developed and implemented to improve its cash management activities. These policies and procedures should specifically provide for charging the appropriate federal grant at the time the initial transaction is recorded as required by Policy 20. Also, monitoring procedures should be developed to ensure the above procedures are implemented. Since the financial management part of TN KIDS has no implementation timeline, the department should implement changes in their funding process immediately to better manage the state's cash.

Management's Comment

We concur. Information Resources has indicated that staff will be available in May 1999 to begin the analysis for the fiscal funding project. The fiscal funding project will greatly assist in the cash management process. In addition, minor computer improvements have been requested to the drawdown program which will be ranked as a small project when Information Resources staff are available before the end of this fiscal year. It is a priority for fiscal policies and procedures to be developed which will include cash management activities. Please see the response to finding 98-DCS-10 for additional information.

Finding Number	98-DCS-10
CFDA Number	93.658
Program Name	Foster Care – Title IV-E
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9501TN1401 through 9501TN1401
Finding Type	Material Weakness
Questioned Costs	None

Controls over computer programming used for payment processing are not adequate

Finding

As noted in the prior three audits covering the period July 1, 1994, to June 30, 1997, computer programming controls associated with the payment system are not adequate. Management concurred with each of these findings and stated that the department is developing TnKids to support all department functions, including a comprehensive financial management system.

The design and implementation of TnKids was started January 17, 1997, and completion was initially estimated to be April 1998. The expected implementation date was changed from April 1998 to August 1998 to December 1998. The first phase of the new system, which only involves the Southeast region, has now been scheduled for implementation in March 1999 with all other regions expected to be implemented by September 1999. The payment processing functions are to be included in the financial management system of TnKids. However, the financial management portion has not even been approved by the department's Management Advisory Committee. Therefore, there is no timetable for design and implementation of this very important portion of the system.

Until the financial management portion of TnKids is designed and implemented, programs written using dBase or Foxpro software will continue to allow a single user to modify the program, manipulate files, enter data, and prepare reports. Because of the seriousness of these inadequate computer controls, a material weakness in internal controls will be reported in the 1998 Tennessee Single Audit report.

Inadequate controls over computer programming used for payment processing decrease the probability that errors or irregularities will be identified in a timely manner and increase the risk that employees will be able to inappropriately manipulate data.

Recommendation

The Assistant Commissioner for Fiscal and Information Systems should ensure adequate controls over computer programs are used for payment processing until the financial management portion of TN KIDS is working. Since there is no timetable for the financial management portion of the TN KIDS System, controls should be incorporated into the existing system and processes. Also, the Commissioner should continue to work with the Office for Information Resources to ensure the design and implementation deadlines for the TN KIDS System are met. The financial management portion of TN KIDS should be made a high priority in the implementation of the TN KIDS System.

Management's Comment

We concur. The date of completion for the development of the TnKids system has been moved back to accommodate necessary changes resulting from elements that have become requirements due to changes in legislation, etc. In addition, the department is determined that this system be beneficial to the end user and provide accurate information concerning children. In this effort, staff from the field level to the central office have been involved in the development of the system. The department is verifying federal compliance requirements prior to implementation. The department continues to move forward and has approved the financial management phase for development (phase 2.3). See finding 98-DCS-05 for additional information about this phase of the systems development.

The medical payment system does not have adequate computer programming controls. Fiscal staff and Information Resources staff are working in conjunction to address this problem. It is anticipated these changes will be in place by the end of this calendar year. Fiscal staff continue to use the standard claim invoice system developed by Information Resources to process residential and prevention claims. This system provides better controls for the payment process by preventing users from modifying the programs or manipulating the files.

Finding Number	98-DCS-11
CFDA Number	93.658
Program Name	Foster Care – Title IV-E
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9501TN1401 through 9801TN1401
Finding Type	Material Weakness, Eligibility
Questioned Costs	$276.13

<u>Controls over disbursements were still weak</u>

Finding

As noted in four previous audits covering the period July 1, 1993, to June 30, 1997, Children's Services did not have sufficient controls to ensure that disbursements were properly processed. Management concurred with the prior finding and stated that senior management agreed to designate staff to identify DCS employees who will approve claims and invoices before they are submitted to the fiscal office. In the areas of residential and detention centers claims using Title IV-E funding, the approval process appears to be in place. However, designated approvers were not put in place for claims for foster care and child protective services funded with the Social Services Block Grant (SSBG) and Title IV-E. Problems included lack of supporting documentation, incorrect rates used, and insufficient approvals. Examples:

- <u>Lack of Supporting Documentation</u> - Children's Services does not maintain copies of foster care and adoption assistance contracts in the central office. Instead, the central office relies on information in the Children's Plan Financial Information System (ChipFins) to generate foster care and adoption assistance payments to vendors. Through testwork performed for the SSBG and Title IV-E sections, it was determined that the information in ChipFins is not always reliable or accurate. (See finding 98-DCS-02)

  For SSBG, twelve of 40 expenditures tested (30%) were not allowable based on the actual foster care contract; however, the information in ChipFins showed the expenditure as being allowable. Five did not have valid foster care contracts, and for seven the foster care contract did not provide for therapeutic bonus fees paid by the department. These payments, totaling $2,130.07, are included in the Schedule of Findings and Questioned Costs in the Single Audit Report for the year ended June 30, 1998. For the Title IV-E federal program, various problems were noted, such as:

  - incorrect rates used to determine payment,
  - payments not reimbursable under Title IV-E,
  - incorrect number of days of service being paid to vendors, and
  - payment not reasonable based on placement and goods or services received by the child.

  These payments, totaling $825.13, are included in the Schedule of Findings and Questioned Costs in the Single Audit Report for the year ended June 30, 1998.

- Insufficient Approval - Neither caseworker nor other knowledgeable party verified that goods or services had been provided to children before payments were made, and underlying records were not checked to ensure they reflect appropriate activities and allowable costs. This means that the department's central office paid vendor invoices with no knowledge that the invoices reflect actual expenditures. Because of the seriousness of this weakness in the department's internal controls, it will be reported as a material weakness in the 1998 Tennessee Single Audit report. For all 40 of the SSBG expenditures tested and 55 of 60 Title IV-E expenditures tested (91.6%), the receipt of goods or services was not verified, and underlying records were not checked to ensure they reflect allowable costs.

Effective internal controls are essential to account for government resources and to ensure that payments are appropriate. Management has the responsibility to institute control procedures that will ensure all transactions are properly authorized and supported. Management's responsibility for establishing effective internal controls includes effective supervisory review procedures to provide reasonable assurance that errors and irregularities will be detected timely. When there are no controls, payments may be made for goods or services that were not received.

Recommendation

The Commissioner should immediately determine why the Assistant Commissioner of Fiscal and Information Services and the Director of Fiscal Services did not take appropriate measures to strengthen the controls over the processing of all disbursements as assured in the department's responses to the last audit. If the department intends to rely on ChipFins to process foster care and adoption assistance payments, procedures should be in place to ensure ChipFins information is reliable and accurate. The Director of Fiscal Services should also ensure that proper supervisory approvals are obtained to minimize the likelihood of mistakes in processing transactions. The internal audit unit should continue to review the department's payment process to determine what changes need to be made to ensure that proper documentation exists for every payment.

Management's Comment

We concur. Program staff have been instructed and are cooperating in a review of all foster care contracts to make sure they are a valid and appropriate foster care contract based on current requirements. This corrective process began in early 1999 and will be completed by the end of this fiscal year for the foster care contracts funded with SSBG. As those foster care contracts are modified, fiscal staff are working to ensure they are correctly funded. A departmental policy has been developed for the review of all foster care contracts within a 12 month period which will also help facilitate the determination of contractual problems. This latter process will be occurring in conjunction with the SSBG process.

The Internal Audit Division, in conjunction with the Planning and Research Division have developed an authorization and approver process for a significant number of non-residential service contracts that are or will be part of the new network system. These controls were to have been implemented April 1999. The goal of the department is to have all claims go through an authorization and approval process before coming to fiscal for payment. After the April 1999 date, the Director of Fiscal Services is to be notified by payables staff of any claims for payment without a signed approval. Information concerning the lack of the required designated approver's signature will be accumulated and reported to management for appropriate corrective action.

Use of a standard claim process to insure that the rates paid agree with the rates contained in the designated contract was started in May of 1997 with improvements being made as determined necessary. We will continue to develop more adequate methods of controls for other contract payments.

In addition, please see the response to finding 98-DCS-02 for additional controls put in place for foster care contracts.

Finding Number	98-DCS-02
CFDA Number	93.659
Program Name	Adoption Assistance
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9001TN1407 through 9801TN1407
Finding Type	Material Weakness, Eligibility
Questioned Costs	None

Status changes for foster children are still not processed promptly

Finding

As noted in four previous audits, which covered the period July 1, 1993, to June 30, 1997, status changes for foster children are not processed promptly, resulting in overpayments. Because of the seriousness of this weakness in internal controls, it will be reported as a material weakness in the 1998 Tennessee Single Audit report.

As stated in management's comments to the prior finding, the Children's Plan Financial Information System (ChipFins) database is now updated by the caseworkers when a child's foster care placement changes. However, when caseworkers do not enter placement changes in ChipFins before the next benefit payment cut-off date, payments will continue to be made to foster parents or vendors. If caseworkers do not enter the placement changes timely, they must submit change-in-status adjustment forms to the central office to correct the over- or under- payments. As indicated in management's comments to the prior audit finding, the department began preparing monthly reports which show the adjustment forms received, and the amount of the changes by caseworker. Starting in January 1998, the report was provided to central program staff as well as to the Regional Administrators for their review to determine why the changes are not being made timely by the caseworkers.

Adjustment forms for the time period January through June 1998 show that 615 adjustments were made, totaling $248,822.40 in overpayments and $19,792.73 in underpayments. The department paid the total amount of underpayments to the vendors. However, Children's Services could not determine, nor was it willing to take the time to calculate, the amount of collections it had received for the overpayments. Had the department properly accounted for these collections, this information would have been readily available and would not have taken extra time to complete. The inability of fiscal staff to determine collections made against overpayments shows a complete lack of concern for proper accountability and disregard of monies owed the state.

Since the department started preparing and reviewing the monthly reports, the number of adjustments has decreased, but it appears that there is still a problem with status changes not being made timely by the caseworker.

Furthermore, this monthly report of adjustments shows when status changes were made late, but does nothing to determine if status changes should have been made, but were not. A review of case files by caseworkers' supervisors would be necessary to ensure that the caseworkers are preparing status changes accurately and timely.

Recommendation

The Assistant Commissioner for Program Operations should enforce the department's procedures to ensure caseworkers enter child placement information in ChipFins timely. These procedures should include a requirement that the caseworkers' immediate supervisor examine case files regularly to ensure placement data is being entered into ChipFins accurately and timely. Management should follow up on these reviews to ensure they are being performed and take disciplinary action against caseworkers who fail to comply with the new procedures.

In addition, management should properly account for collections made against overpayments as a part of effective accounts receivable procedures.

Management's Comment

We concur, however, the department has made significant efforts to address this issue. Starting in March 1998 the Fiscal Division started tracking the number of status changes submitted to that office from field staff. This process was initiated after Internal Audit did an initial analysis for the period of January through September of 1997. This initial analysis was given to the Regional Administrators to indicate problem counties where this issue needed to be addressed more specifically. The report from the Fiscal Division has been provided to the Director of Regional Services and Internal Audit monthly. The Director of Regional Services has distributed this report to the Regional Administrators for follow-up action to address any indicated problems. Internal Audit has prepared three month trend analyses which are reported to the Director of Regional Services and the Deputy Commissioner. These three month analyses indicate that the status changes submitted to the Fiscal Division have dropped from $81,700 in the three month period ending May 1998 to $34,447 in the three month period ending November 1998. Adjustment reports will continue to be provided and the work of case managers monitored regularly. See finding 98-DCS-05 for information concerning the department's accounts receivable software request.

In addition, the department now has case managers assigned to specific foster homes. Each of those case managers has the responsibility of data entry for each child entering or exiting the assigned homes. It has been made apparent that timely data entry is a major job responsibility for this position and that disciplinary action will be and has been taken when a case manager is habitually late with data entry. A policy has been implemented that requires a 25% review of all case files per quarter per region. This would result in a 100% review over a 12 month period. At the time of the review the data included in the case file is to be checked against the data in ChipFins, CORS, and/or TnKids. This policy has an effective date of January 11, 1999.

Finding Number	98-DCS-03
CFDA Number	93.659
Program Name	Adoption Assistance
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9001TN1407 through 9801TN1407
Finding Type	Reportable Condition, Allowable Costs/Cost Principles
Questioned Costs	$487.98

Failure to resolve disciplinary issues in a timely manner resulted in the inappropriate use of state and federal funds for administrative leave with pay

Finding

The Department of Children's Services did not resolve disciplinary issues within a timely manner. In three instances, employees of the department were put on administrative leave with pay while investigations into alleged wrongdoing were being conducted. These employees remained on administrative leave with pay for 1,247 hours, 1,316 hours, and 1,285 hours, for an average of eight and a half months each. Review of the investigation files and the employees' personnel files, revealed that in all three cases, sufficient evidence existed early in the investigation either to remove the employee from administrative leave with pay or to dismiss the employee. There were many consecutive months during each investigation when no action was taken to resolve the matter. Therefore, the employees were not reporting to work, but were being paid even after there appeared to be sufficient evidence at least to put the employees on administrative leave without pay until resolution of the disciplinary issues. Two of the employees were eventually terminated and the other employee was reassigned to different job duties.

One of the employees was investigated for not performing her job duties adequately. It was found that the employee had not performed her job duties satisfactorily and the employee was reassigned to different job duties. Another employee was investigated for falsifying her employment application by not including a previous employer on her application. The employee had been criminally charged with grand larceny from this previous non-state government employer. In addition, the employee took sick leave when she was arrested on these charges. This employee was eventually terminated. The third employee was investigated for misappropriation of state funds and misuse of state property; this employee was eventually terminated for gross misconduct.

Two of the employees' salaries were paid with federal program funds. Since these employees were not benefiting the program during the investigation, it does not seem reasonable that the department continued to use federal funds to pay their salaries. The programs charged are Title IV-E Adoption Assistance ($487.98), Title IV-E Foster Care ($10,163.16), Title IV-B ($776.33), Social Services Block Grant ($8,313.29), and Title XIX (TennCare) ($18,072.76). These payments are included in the Schedule of Findings and Questioned Costs in the Single Audit Report for the year ended June 30, 1998.

According to management, the disciplinary process was not handled timely because there were problems scheduling due process hearings and because of the number of investigations occurring at the same time. By not acting in a timely manner to resolve the disciplinary issues, the department misused federal and state funds.

Recommendation

The Commissioner should take appropriate steps to ensure that investigations and due process hearings are held in a timely manner. Employees under investigation should be taken off of administrative leave with pay as soon as there is sufficient evidence. In addition, the Assistant Commissioner of Fiscal and Information Services should be instructed not to use federal funds to pay salaries while an employee is on extended administrative leave with pay.

Management's Comment

We concur. Efforts are being made to ensure that investigations and due process hearings are held in a timely manner for a department with over 3,000 employees. A departmental policy will be developed so the Director of Fiscal Services will be notified when staff are on administrative leave with pay. Steps will then be taken to ensure that federal funds are not used to pay salaries while an employee is on administrative leave with pay status. The Commissioner has encouraged staff to proceed with appropriate action based on the testimony of investigators rather than wait for the release of written investigative reports.

In at least 50% of the cases handled by the department a grievant doesn't obtain an attorney or other representative in a timely manner to allow the hearing to go forward at the time and date set. This results in numerous delays and continuances in an attempt to coordinate all individual's (the grievant, the grievant's attorney, and the department's representative) schedules and that of the hearing officer's docket. During this time placing an employee on leave without pay could be considered as "taking action" which the department feels in most cases would be improper until the culmination of the investigation. The department will, however, make every effort to complete all investigations in a timely manner.

Finding Number	98-DCS-04
CFDA Number	93.659
Program Name	Adoption Assistance
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9001TN1407 through 9801TN1407
Finding Type	Material Weakness
Questioned Costs	None

The department continues to issue duplicate payments and overpayments to vendors; $185,288.52 was returned or refunded voluntarily by vendors

Finding

As noted in four previous audits covering the period July 1, 1993, to June 30, 1997, the Department of Children's Services issued many duplicate payments and overpayments to vendors for goods and services provided to children. During fiscal year 1998, vendors voluntarily made over 140 refunds totaling $101,759.63 and returned 305 original checks totaling $83,528.99. Management concurred with the prior audit finding and stated that computer system edit changes were made to certain programs and that accounting and receivable staff would be providing fiscal management information explaining why the original checks and refunds were being returned to the department. According to management, the edit changes were made to the residential, prevention, and wraparound programs in fiscal year 1998. Reports concerning returns of original checks were provided to fiscal management starting in fiscal year 1999. However, it does not appear that the corrective action taken by the department was timely or completely effective. While the total dollar amount of duplicate payments and overpayments is significantly lower than the total in prior findings, the total number of original checks returned increased. This suggests that the significant decrease in the total dollar amount was not due to the implementation of good internal controls. Because of the seriousness of this weakness in the department's internal controls, it will be reported as a material weakness in the 1998 Tennessee Single Audit report.

Examples of some of the duplicate payments and overpayments are as follows:

- Nineteen overpayments were made to a discount store.
- Twelve duplicate payments were made to a mail delivery service.
- Six overpayments were made to deceased vendors. Four of these payments were made to the same vendor over a two month period.

The duplicate payments for goods or services could not be precisely explained. Vendors may have unintentionally submitted claims twice; vendors may have resubmitted original claims because they had not received prompt payment; or two separate parties involved with securing goods and services for the child may each have submitted the claim, unaware the other party had already submitted the claim.

Implementing computer system controls would decrease duplicate payments and overpayments to vendors and reduce the staff time required to process refunds and cancel warrants.

Recommendation

The Assistant Commissioner of Fiscal and Information Systems should take appropriate measures to establish adequate internal controls that will eliminate duplicate payments and overpayments. These controls should include ongoing procedures and processes to monitor the effectiveness of the controls and to ensure appropriate compliance with control procedures.

In addition, responsibility should be assigned to a specific person to monitor the reasons why duplicate payments and overpayments are being made and take appropriate action to greatly reduce these payments. Computer edit checks should be developed for expenditures other than residential, prevention, and wraparound.

Management's Comment

We concur. It is important to point out that overpayments for 1997-98 are less than .05% of the budget for the department. There were a total of 73,214 warrants issued in 1998 and only 305 were canceled according to the finding. This represents .4% of the warrants issued. This is not to indicate that the department is not continuing to address additional improvements in this area but the amount in the finding is only .07% ($185,288.52/241,579,013.95) of the department's total disbursements.

Beginning April 1999, comprehensive reports on canceled warrants and refund checks are being prepared by fiscal staff and shared with the Director of Fiscal Services on a regular basis. Analysis of these reports will indicate the areas that should be targeted for improvement and the type of action that should be taken. A request has been sent to Information Resources to establish a database program to help locate duplicate entries for TOPS/STARS invoices. This program would list the invoice number, date, vendor name and the amount of the invoice. As new invoices are entered the system would check for any duplicates based on the invoice number and/or the amount.

Auditor's Comment

It should be noted that the dollar amounts and number of refunds and returns in the finding only represent the known overpayments. The actual amount of overpayments that have not been returned by the vendors is unknown.

Finding Number	98-DCS-09
CFDA Number	93.659
Program Name	Adoption Assistance
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9001TN1407 through 9801TN1407
Finding Type	Material Weakness, Cash Management
Questioned Costs	None

The department has improperly managed state cash by not charging the appropriate federal grant at the time the initial expenditure transaction is made

Finding

As noted in three previous audits covering the period July 1, 1994, to June 30, 1997, the Department of Children's Services pays expenditures with state dollars initially and later reallocates the expenditure to the appropriate federal grant, creating significant time lapses between disbursements of state funds and actual drawdowns of federal funds. As a result, the state is losing interest income on and the use of state money used to fund federal expenditures. Because of the seriousness of these inadequate cash management policies and procedures, a material weakness in internal controls will be reported in the 1998 Tennessee Single Audit report.

Management concurred with the prior finding and stated a new computer system was put into place that would facilitate the drawdown process. According to management, the new system has been put into place; however, the system will not completely eliminate the problems noted in the prior audit. Management also stated in the prior audit report that the proposed financial management system of TnKids would be needed to fund expenditures by each child from multiple grants based on different eligibility requirements. However, as stated in previous findings in this report, the financial management part of TnKids has not even been approved by the Management Advisory Committee and has no timetable for implementation. Management also stated in prior comments that it is evaluating the practicality of developing computer programs to improve the current processing until the implementation of TnKids. According to management, the evaluation determined that changes could be made to the system to improve the processing of drawdowns until the implementation of TnKids. However, these changes have not been made.

According to the Department of Finance and Administration's Policy 20, "Recording of Federal Grant Expenditures and Revenues," Section 20-02-203, all grant-related expenditure transactions must be coded to the appropriate grants at the time the initial transaction is recorded.

During testwork on the department's two major federal programs, the following was noted:

- Title IV-E - All 60 expenditures tested were charged to the federal grant from three to 46 days after the initial transaction was paid with state dollars.
- SSBG - Twenty-two of 40 expenditure items tested (55%) were charged to the federal grant from ten to 61 days after the initial transaction was paid with state dollars.

The Foster Care Title IV-E program requires child-specific eligibility, but the SSBG grant does not. However, until the department charges all grants at the time the transactions occur, it will have problems with all grants, child-specific or not, due to their methods of funding. This will in turn cause improper management of the state's cash.

Recommendation

The Assistant Commissioner for Fiscal and Information Systems should ensure policies and procedures are developed and implemented to improve its cash management activities. These policies and procedures should specifically provide for charging the appropriate federal grant at the time the initial transaction is recorded as required by Policy 20. Also, monitoring procedures should be developed to ensure the above procedures are implemented. Since the financial management part of TN KIDS has no implementation timeline, the department should implement changes in their funding process immediately to better manage the state's cash.

Management's Comment

We concur. Information Resources has indicated that staff will be available in May 1999 to begin the analysis for the fiscal funding project. The fiscal funding project will greatly assist in the cash management process. In addition, minor computer improvements have been requested to the drawdown program which will be ranked as a small project when Information Resources staff are available before the end of this fiscal year. It is a priority for fiscal policies and procedures to be developed which will include cash management activities. Please see the response to finding 98-DCS-10 for additional information.

Finding Number	98-DCS-10
CFDA Number	93.659
Program Name	Adoption Assistance
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9001TN1407 through 9801TN1407
Finding Type	Material Weakness
Questioned Costs	None

Controls over computer programming used for payment processing are not adequate

Finding

As noted in the prior three audits covering the period July 1, 1994, to June 30, 1997, computer programming controls associated with the payment system are not adequate. Management concurred with each of these findings and stated that the department is developing TnKids to support all department functions, including a comprehensive financial management system.

The design and implementation of TnKids was started January 17, 1997, and completion was initially estimated to be April 1998. The expected implementation date was changed from April 1998 to August 1998 to December 1998. The first phase of the new system, which only involves the Southeast region, has now been scheduled for implementation in March 1999 with all other regions expected to be implemented by September 1999. The payment processing functions are to be included in the financial management system of TnKids. However, the financial management portion has not even been approved by the department's Management Advisory Committee. Therefore, there is no timetable for design and implementation of this very important portion of the system.

Until the financial management portion of TnKids is designed and implemented, programs written using dBase or Foxpro software will continue to allow a single user to modify the program, manipulate files, enter data, and prepare reports. Because of the seriousness of these inadequate computer controls, a material weakness in internal controls will be reported in the 1998 Tennessee Single Audit report.

Inadequate controls over computer programming used for payment processing decrease the probability that errors or irregularities will be identified in a timely manner and increase the risk that employees will be able to inappropriately manipulate data.

Recommendation

The Assistant Commissioner for Fiscal and Information Systems should ensure adequate controls over computer programs are used for payment processing until the financial management portion of TN KIDS is working. Since there is no timetable for the financial management portion of the TN KIDS System, controls should be incorporated into the existing system and processes. Also, the Commissioner should continue to work with the Office for Information Resources to ensure the design and implementation deadlines for the TN KIDS System are met. The financial management portion of TN KIDS should be made a high priority in the implementation of the TN KIDS System.

Management's Comment

We concur. The date of completion for the development of the TnKids system has been moved back to accommodate necessary changes resulting from elements that have become requirements due to changes in legislation, etc. In addition, the department is determined that this system be beneficial to the end user and provide accurate information concerning children. In this effort, staff from the field level to the central office have been involved in the development of the system. The department is verifying federal compliance requirements prior to implementation. The department continues to move forward and has approved the financial management phase for development (phase 2.3). See finding 98-DCS-05 for additional information about this phase of the systems development.

The medical payment system does not have adequate computer programming controls. Fiscal staff and Information Resources staff are working in conjunction to address this problem. It is anticipated these changes will be in place by the end of this calendar year. Fiscal staff continue to use the standard claim invoice system developed by Information Resources to process residential and prevention claims. This system provides better controls for the payment process by preventing users from modifying the programs or manipulating the files.

Finding Number	98-DCS-11
CFDA Number	93.659
Program Name	Adoption Assistance
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9001TN1407 through 9801TN1407
Finding Type	Material Weakness, Eligibility
Questioned Costs	$549.00

<u>Controls over disbursements were still weak</u>

Finding

As noted in four previous audits covering the period July 1, 1993, to June 30, 1997, Children's Services did not have sufficient controls to ensure that disbursements were properly processed. Management concurred with the prior finding and stated that senior management agreed to designate staff to identify DCS employees who will approve claims and invoices before they are submitted to the fiscal office. In the areas of residential and detention centers claims using Title IV-E funding, the approval process appears to be in place. However, designated approvers were not put in place for claims for foster care and child protective services funded with the Social Services Block Grant (SSBG) and Title IV-E. Problems included lack of supporting documentation, incorrect rates used, and insufficient approvals. Examples:

- <u>Lack of Supporting Documentation</u> - Children's Services does not maintain copies of foster care and adoption assistance contracts in the central office. Instead, the central office relies on information in the Children's Plan Financial Information System (ChipFins) to generate foster care and adoption assistance payments to vendors. Through testwork performed for the SSBG and Title IV-E sections, it was determined that the information in ChipFins is not always reliable or accurate (See finding #98-DCS-02

  For SSBG, twelve of 40 expenditures tested (30%) were not allowable based on the actual foster care contract; however, the information in ChipFins showed the expenditure as being allowable. Five did not have valid foster care contracts, and for seven the foster care contract did not provide for therapeutic bonus fees paid by the department. These payments, totaling $2,130.07, are included in the Schedule of Findings and Questioned Costs in the Single Audit Report for the year ended June 30, 1998. For the Title IV-E federal program, various problems were noted, such as:

  - incorrect rates used to determine payment,
  - payments not reimbursable under Title IV-E,
  - incorrect number of days of service being paid to vendors, and
  - payment not reasonable based on placement and goods or services received by the child.

  These payments, totaling $825.13, are included in the Schedule of Findings and Questioned Costs in the Single Audit Report for the year ended June 30, 1998.

- Insufficient Approval - Neither caseworker nor other knowledgeable party verified that goods or services had been provided to children before payments were made, and underlying records were not checked to ensure they reflect appropriate activities and allowable costs. This means that the department's central office paid vendor invoices with no knowledge that the invoices reflect actual expenditures. Because of the seriousness of this weakness in the department's internal controls, it will be reported as a material weakness in the 1998 Tennessee Single Audit report. For all 40 of the SSBG expenditures tested and 55 of 60 Title IV-E expenditures tested (91.6%), the receipt of goods or services was not verified, and underlying records were not checked to ensure they reflect allowable costs.

Effective internal controls are essential to account for government resources and to ensure that payments are appropriate. Management has the responsibility to institute control procedures that will ensure all transactions are properly authorized and supported. Management's responsibility for establishing effective internal controls includes effective supervisory review procedures to provide reasonable assurance that errors and irregularities will be detected timely. When there are no controls, payments may be made for goods or services that were not received.

Recommendation

The Commissioner should immediately determine why the Assistant Commissioner of Fiscal and Information Services and the Director of Fiscal Services did not take appropriate measures to strengthen the controls over the processing of all disbursements as assured in the department's responses to the last audit. If the department intends to rely on ChipFins to process foster care and adoption assistance payments, procedures should be in place to ensure ChipFins information is reliable and accurate. The Director of Fiscal Services should also ensure that proper supervisory approvals are obtained to minimize the likelihood of mistakes in processing transactions. The internal audit unit should continue to review the department's payment process to determine what changes need to be made to ensure that proper documentation exists for every payment.

Management's Comment

We concur. Program staff have been instructed and are cooperating in a review of all foster care contracts to make sure they are a valid and appropriate foster care contract based on current requirements. This corrective process began in early 1999 and will be completed by the end of this fiscal year for the foster care contracts funded with SSBG. As those foster care contracts are modified, fiscal staff are working to ensure they are correctly funded. A departmental policy has been developed for the review of all foster care contracts within a 12 month period which will also help facilitate the determination of contractual problems. This latter process will be occurring in conjunction with the SSBG process.

The Internal Audit Division, in conjunction with the Planning and Research Division have developed an authorization and approver process for a significant number of non-residential service contracts that are or will be part of the new network system. These controls were to have been implemented April 1999. The goal of the department is to have all claims go through an authorization and approval process before coming to fiscal for payment. After the April 1999 date, the Director of Fiscal Services is to be notified by payables staff of any claims for payment without a signed approval. Information concerning the lack of the required designated approver's signature will be accumulated and reported to management for appropriate corrective action.

Use of a standard claim process to insure that the rates paid agree with the rates contained in the designated contract was started in May of 1997 with improvements being made as determined necessary. We will continue to develop more adequate methods of controls for other contract payments.

In addition, please see the response to finding 98-DCS-02 for additional controls put in place for foster care contracts.

Finding Number	98-DCS-03
CFDA Number	93.667
Program Name	Social Services Block Grant
Federal Agency	Department of Health and Human Services
Pass Through Agency	Department of Human Services
State Agency	Department of Children's Services
Grant/Contract No.	Various
Finding Type	Reportable Condition, Allowable Costs/Cost Principles
Questioned Costs	$8,313.29

Failure to resolve disciplinary issues in a timely manner resulted in the inappropriate use of state and federal funds for administrative leave with pay

Finding

The Department of Children's Services did not resolve disciplinary issues within a timely manner. In three instances, employees of the department were put on administrative leave with pay while investigations into alleged wrongdoing were being conducted. These employees remained on administrative leave with pay for 1,247 hours, 1,316 hours, and 1,285 hours, for an average of eight and a half months each. Review of the investigation files and the employees' personnel files, revealed that in all three cases, sufficient evidence existed early in the investigation either to remove the employee from administrative leave with pay or to dismiss the employee. There were many consecutive months during each investigation when no action was taken to resolve the matter. Therefore, the employees were not reporting to work, but were being paid even after there appeared to be sufficient evidence at least to put the employees on administrative leave without pay until resolution of the disciplinary issues. Two of the employees were eventually terminated and the other employee was reassigned to different job duties.

One of the employees was investigated for not performing her job duties adequately. It was found that the employee had not performed her job duties satisfactorily and the employee was reassigned to different job duties. Another employee was investigated for falsifying her employment application by not including a previous employer on her application. The employee had been criminally charged with grand larceny from this previous non-state government employer. In addition, the employee took sick leave when she was arrested on these charges. This employee was eventually terminated. The third employee was investigated for misappropriation of state funds and misuse of state property; this employee was eventually terminated for gross misconduct.

Two of the employees' salaries were paid with federal program funds. Since these employees were not benefiting the program during the investigation, it does not seem reasonable that the department continued to use federal funds to pay their salaries. The programs charged are Title IV-E Adoption Assistance ($487.98), Title IV-E Foster Care ($10,163.16), Title IV-B ($776.33), Social Services Block Grant ($8,313.29), and Title XIX (TennCare) ($18,072.76). These payments are included in the Schedule of Findings and Questioned Costs in the Single Audit Report for the year ended June 30, 1998.

According to management, the disciplinary process was not handled timely because there were problems scheduling due process hearings and because of the number of investigations occurring at the same time. By not acting in a timely manner to resolve the disciplinary issues, the department misused federal and state funds.

Recommendation

The Commissioner should take appropriate steps to ensure that investigations and due process hearings are held in a timely manner. Employees under investigation should be taken off of administrative leave with pay as soon as there is sufficient evidence. In addition, the Assistant Commissioner of Fiscal and Information Services should be instructed not to use federal funds to pay salaries while an employee is on extended administrative leave with pay.

Management's Comment

We concur. Efforts are being made to ensure that investigations and due process hearings are held in a timely manner for a department with over 3,000 employees. A departmental policy will be developed so the Director of Fiscal Services will be notified when staff are on administrative leave with pay. Steps will then be taken to ensure that federal funds are not used to pay salaries while an employee is on administrative leave with pay status. The Commissioner has encouraged staff to proceed with appropriate action based on the testimony of investigators rather than wait for the release of written investigative reports.

In at least 50% of the cases handled by the department a grievant doesn't obtain an attorney or other representative in a timely manner to allow the hearing to go forward at the time and date set. This results in numerous delays and continuances in an attempt to coordinate all individual's (the grievant, the grievant's attorney, and the department's representative) schedules and that of the hearing officer's docket. During this time placing an employee on leave without pay could be considered as "taking action" which the department feels in most cases would be improper until the culmination of the investigation. The department will, however, make every effort to complete all investigations in a timely manner.

Finding Number	98-DCS-04
CFDA Number	93.667
Program Name	Social Services Block Grant
Federal Agency	Department of Health and Human Services
Pass Through Agency	Department of Human Services
State Agency	Department of Children's Services
Grant/Contract No.	Various
Finding Type	Material Weakness
Questioned Costs	None

The department continues to issue duplicate payments and overpayments to vendors; $185,288.52 was returned or refunded voluntarily by vendors

Finding

As noted in four previous audits covering the period July 1, 1993, to June 30, 1997, the Department of Children's Services issued many duplicate payments and overpayments to vendors for goods and services provided to children. During fiscal year 1998, vendors voluntarily made over 140 refunds totaling $101,759.63 and returned 305 original checks totaling $83,528.99. Management concurred with the prior audit finding and stated that computer system edit changes were made to certain programs and that accounting and receivable staff would be providing fiscal management information explaining why the original checks and refunds were being returned to the department. According to management, the edit changes were made to the residential, prevention, and wraparound programs in fiscal year 1998. Reports concerning returns of original checks were provided to fiscal management starting in fiscal year 1999. However, it does not appear that the corrective action taken by the department was timely or completely effective. While the total dollar amount of duplicate payments and overpayments is significantly lower than the total in prior findings, the total number of original checks returned increased. This suggests that the significant decrease in the total dollar amount was not due to the implementation of good internal controls. Because of the seriousness of this weakness in the department's internal controls, it will be reported as a material weakness in the 1998 Tennessee Single Audit report.

Examples of some of the duplicate payments and overpayments are as follows:

- Nineteen overpayments were made to a discount store.
- Twelve duplicate payments were made to a mail delivery service.
- Six overpayments were made to deceased vendors. Four of these payments were made to the same vendor over a two month period.

The duplicate payments for goods or services could not be precisely explained. Vendors may have unintentionally submitted claims twice; vendors may have resubmitted original claims because they had not received prompt payment; or two separate parties involved with securing goods and services for the child may each have submitted the claim, unaware the other party had already submitted the claim.

Implementing computer system controls would decrease duplicate payments and overpayments to vendors and reduce the staff time required to process refunds and cancel warrants.

Recommendation

The Assistant Commissioner of Fiscal and Information Systems should take appropriate measures to establish adequate internal controls that will eliminate duplicate payments and overpayments. These controls should include ongoing procedures and processes to monitor the effectiveness of the controls and to ensure appropriate compliance with control procedures.

In addition, responsibility should be assigned to a specific person to monitor the reasons why duplicate payments and overpayments are being made and take appropriate action to greatly reduce these payments. Computer edit checks should be developed for expenditures other than residential, prevention, and wraparound.

Management's Comment

We concur. It is important to point out that overpayments for 1997-98 are less than .05% of the budget for the department. There were a total of 73,214 warrants issued in 1998 and only 305 were canceled according to the finding. This represents .4% of the warrants issued. This is not to indicate that the department is not continuing to address additional improvements in this area but the amount in the finding is only .07% ($185,288.52/241,579,013.95) of the department's total disbursements.

Beginning April 1999, comprehensive reports on canceled warrants and refund checks are being prepared by fiscal staff and shared with the Director of Fiscal Services on a regular basis. Analysis of these reports will indicate the areas that should be targeted for improvement and the type of action that should be taken. A request has been sent to Information Resources to establish a database program to help locate duplicate entries for TOPS/STARS invoices. This program would list the invoice number, date, vendor name and the amount of the invoice. As new invoices are entered the system would check for any duplicates based on the invoice number and/or the amount.

Auditor's Comment

It should be noted that the dollar amounts and number of refunds and returns in the finding only represent the known overpayments. The actual amount of overpayments that have not been returned by the vendors is unknown.

Finding Number	98-DCS-06
CFDA Number	93.667
Program Name	Social Services Block Grant
Federal Agency	Department of Health and Human Services
Pass Through Agency	Department of Human Services
State Agency	Department of Children's Services
Grant/Contract No.	Various
Finding Type	Material Weakness, Subrecipient Monitoring
Questioned Costs	None

Children's Services subrecipient monitoring system is inadequate

Finding

The department did not have all monitoring reports and did not examine audit reports as part of the monitoring process for its subrecipients. The department has contracted with the Department of Finance and Administration (F&A) to perform monitoring of the department's subrecipients. The contract requires the department to approve corrective action plans submitted by the subrecipient responding to audit findings from the monitoring reports. However, no one in the department has been reviewing the monitoring reports, approving corrective action plans submitted by the subrecipients, or taking any further action that may be deemed necessary by the program specialists.

Not only has the department not been approving corrective action plans, but in many cases, the department did not even have a copy of the monitoring report on file. Office of Management and Budget Circular A-133 states that a pass-through entity is responsible for monitoring the subrecipient's activities to provide assurance that the subrecipient administers Federal awards in compliance with Federal requirements. In addition, the circular states that the entity is to ensure that required audits are performed and require the subrecipient to take prompt corrective action on any audit findings. The department did have audit reports on file for subrecipients, but the personnel responsible for subrecipient monitoring did not have access to these reports. If the department does not have the monitoring reports and does not examine audit reports as part of the monitoring process, the department cannot ensure that its subrecipients are administering the federal awards in compliance with federal requirements.

The department could not provide five of 15 (33%) subrecipients' monitoring reports or corrective action plans for subrecipients monitored during the audit period. In addition, the department could not provide documentation indicating approval of the corrective action plans for eight of 15 subrecipients (53%) monitored during the audit period. Because of the seriousness of the internal control weaknesses associated with subrecipient monitoring, this will be reported as a material weaknesses in the 1998 Tennessee Single Audit report.

Recommendation

The Assistant Commissioner of Programs and the Director of Programs should establish a tracking system to ensure all monitoring reports have been received and are on file at the department. The tracking system should document the name of the person who is responsible for reviewing the report and whether the corrective action plan was submitted by the subrecipient. The tracking system should also document whether the corrective action plan was acceptable and the date the subrecipient was made aware of the acceptance or denial of the corrective plan. There should be periodic reviews of these tracking reports by someone in upper management to ensure that corrective plans are being received and reviewed.

Management's Comment

We concur. The department will take action to insure that monitoring reports are reviewed and that corrective action plans are submitted. Corrective action plans will be reviewed for appropriateness with documented notification made to the subrecipient of acceptance or rejection of the plan. Internal Audit shall obtain from the Department of Finance and Administration a listing of all monitoring activities scheduled and verify that the reports are received by the department.

Finding Number	98-DCS-09
CFDA Number	93.667
Program Name	Social Services Block Grant
Federal Agency	Department of Health and Human Services
Pass Through Agency	Department of Human Services
State Agency	Department of Children's Services
Grant/Contract No.	Various
Finding Type	Material Weakness, Cash Management
Questioned Costs	None

The department has improperly managed state cash by not charging the appropriate federal grant at the time the initial expenditure transaction is made

Finding

As noted in three previous audits covering the period July 1, 1994, to June 30, 1997, the Department of Children's Services pays expenditures with state dollars initially and later reallocates the expenditure to the appropriate federal grant, creating significant time lapses between disbursements of state funds and actual drawdowns of federal funds. As a result, the state is losing interest income on and the use of state money used to fund federal expenditures. Because of the seriousness of these inadequate cash management policies and procedures, a material weakness in internal controls will be reported in the 1998 Tennessee Single Audit report.

Management concurred with the prior finding and stated a new computer system was put into place that would facilitate the drawdown process. According to management, the new system has been put into place; however, the system will not completely eliminate the problems noted in the prior audit. Management also stated in the prior audit report that the proposed financial management system of TnKids would be needed to fund expenditures by each child from multiple grants based on different eligibility requirements. However, as stated in previous findings in this report, the financial management part of TnKids has not even been approved by the Management Advisory Committee and has no timetable for implementation. Management also stated in prior comments that it is evaluating the practicality of developing computer programs to improve the current processing until the implementation of TnKids. According to management, the evaluation determined that changes could be made to the system to improve the processing of drawdowns until the implementation of TnKids. However, these changes have not been made.

According to the Department of Finance and Administration's Policy 20, "Recording of Federal Grant Expenditures and Revenues," Section 20-02-203, all grant-related expenditure transactions must be coded to the appropriate grants at the time the initial transaction is recorded.

During testwork on the department's two major federal programs, the following was noted:

- Title IV-E - All 60 expenditures tested were charged to the federal grant from three to 46 days after the initial transaction was paid with state dollars.
- SSBG - Twenty-two of 40 expenditure items tested (55%) were charged to the federal grant from ten to 61 days after the initial transaction was paid with state dollars.

The Foster Care Title IV-E program requires child-specific eligibility, but the SSBG grant does not. However, until the department charges all grants at the time the transactions occur, it will have problems with all grants, child-specific or not, due to their methods of funding. This will in turn cause improper management of the state's cash.

Recommendation

The Assistant Commissioner for Fiscal and Information Systems should ensure policies and procedures are developed and implemented to improve its cash management activities. These policies and procedures should specifically provide for charging the appropriate federal grant at the time the initial transaction is recorded as required by Policy 20. Also, monitoring procedures should be developed to ensure the above procedures are implemented. Since the financial management part of TN KIDS has no implementation timeline, the department should implement changes in their funding process immediately to better manage the state's cash.

Management's Comment

We concur. Information Resources has indicated that staff will be available in May 1999 to begin the analysis for the fiscal funding project. The fiscal funding project will greatly assist in the cash management process. In addition, minor computer improvements have been requested to the drawdown program which will be ranked as a small project when Information Resources staff are available before the end of this fiscal year. It is a priority for fiscal policies and procedures to be developed which will include cash management activities. Please see the response to finding 98-DCS-10 for additional information.

Finding Number	98-DCS-10
CFDA Number	93.667
Program Name	Social Services Block Grant
Federal Agency	Department of Health and Human Services
Pass Through Agency	Department of Human Services
State Agency	Department of Children's Services
Grant/Contract No.	Various
Finding Type	Material Weakness
Questioned Costs	None

Controls over computer programming used for payment processing are not adequate

Finding

As noted in the prior three audits covering the period July 1, 1994, to June 30, 1997, computer programming controls associated with the payment system are not adequate. Management concurred with each of these findings and stated that the department is developing TnKids to support all department functions, including a comprehensive financial management system.

The design and implementation of TnKids was started January 17, 1997, and completion was initially estimated to be April 1998. The expected implementation date was changed from April 1998 to August 1998 to December 1998. The first phase of the new system, which only involves the Southeast region, has now been scheduled for implementation in March 1999 with all other regions expected to be implemented by September 1999. The payment processing functions are to be included in the financial management system of TnKids. However, the financial management portion has not even been approved by the department's Management Advisory Committee. Therefore, there is no timetable for design and implementation of this very important portion of the system.

Until the financial management portion of TnKids is designed and implemented, programs written using dBase or Foxpro software will continue to allow a single user to modify the program, manipulate files, enter data, and prepare reports. Because of the seriousness of these inadequate computer controls, a material weakness in internal controls will be reported in the 1998 Tennessee Single Audit report.

Inadequate controls over computer programming used for payment processing decrease the probability that errors or irregularities will be identified in a timely manner and increase the risk that employees will be able to inappropriately manipulate data.

Recommendation

The Assistant Commissioner for Fiscal and Information Systems should ensure adequate controls over computer programs are used for payment processing until the financial management portion of TN KIDS is working. Since there is no timetable for the financial management portion of the TN KIDS System, controls should be incorporated into the existing system and processes. Also, the Commissioner should continue to work with the Office for Information Resources to ensure the design and implementation deadlines for the TN KIDS System are met. The financial management portion of TN KIDS should be made a high priority in the implementation of the TN KIDS System.

Management's Comment

We concur. The date of completion for the development of the TnKids system has been moved back to accommodate necessary changes resulting from elements that have become requirements due to changes in legislation, etc. In addition, the department is determined that this system be beneficial to the end user and provide accurate information concerning children. In this effort, staff from the field level to the central office have been involved in the development of the system. The department is verifying federal compliance requirements prior to implementation. The department continues to move forward and has approved the financial management phase for development (phase 2.3). See finding 98-DCS-05 for additional information about this phase of the systems development.

The medical payment system does not have adequate computer programming controls. Fiscal staff and Information Resources staff are working in conjunction to address this problem. It is anticipated these changes will be in place by the end of this calendar year. Fiscal staff continue to use the standard claim invoice system developed by Information Resources to process residential and prevention claims. This system provides better controls for the payment process by preventing users from modifying the programs or manipulating the files.

Finding Number	98-DCS-11
CFDA Number	93.667
Program Name	Social Services Block Grant
Federal Agency	Department of Health and Human Services
Pass Through Agency	Department of Human Services
State Agency	Department of Children's Services
Grant/Contract No.	Various
Finding Type	Material Weakness, Eligibility
Questioned Costs	$2,130.07

Controls over disbursements were still weak

Finding

As noted in four previous audits covering the period July 1, 1993, to June 30, 1997, Children's Services did not have sufficient controls to ensure that disbursements were properly processed. Management concurred with the prior finding and stated that senior management agreed to designate staff to identify DCS employees who will approve claims and invoices before they are submitted to the fiscal office. In the areas of residential and detention centers claims using Title IV-E funding, the approval process appears to be in place. However, designated approvers were not put in place for claims for foster care and child protective services funded with the Social Services Block Grant (SSBG) and Title IV-E. Problems included lack of supporting documentation, incorrect rates used, and insufficient approvals. Examples:

- Lack of Supporting Documentation - Children's Services does not maintain copies of foster care and adoption assistance contracts in the central office. Instead, the central office relies on information in the Children's Plan Financial Information System (ChipFins) to generate foster care and adoption assistance payments to vendors. Through testwork performed for the SSBG and Title IV-E sections, it was determined that the information in ChipFins is not always reliable or accurate (See finding #98-DCS-02).

  For SSBG, twelve of 40 expenditures tested (30%) were not allowable based on the actual foster care contract; however, the information in ChipFins showed the expenditure as being allowable. Five did not have valid foster care contracts, and for seven the foster care contract did not provide for therapeutic bonus fees paid by the department. These payments, totaling $2,130.07, are included in the Schedule of Findings and Questioned Costs in the Single Audit Report for the year ended June 30, 1998. For the Title IV-E federal program, various problems were noted, such as:

  - incorrect rates used to determine payment,
  - payments not reimbursable under Title IV-E,
  - incorrect number of days of service being paid to vendors, and
  - payment not reasonable based on placement and goods or services received by the child.

  These payments, totaling $825.13, are included in the Schedule of Findings and Questioned Costs in the Single Audit Report for the year ended June 30, 1998.

- Insufficient Approval - Neither caseworker nor other knowledgeable party verified that goods or services had been provided to children before payments were made, and underlying records were not checked to ensure they reflect appropriate activities and allowable costs. This means that the department's central office paid vendor invoices with no knowledge that the invoices reflect actual expenditures. Because of the seriousness of this weakness in the department's internal controls, it will be reported as a material weakness in the 1998 Tennessee Single Audit report. For all 40 of the SSBG expenditures tested and 55 of 60 Title IV-E expenditures tested (91.6%), the receipt of goods or services was not verified, and underlying records were not checked to ensure they reflect allowable costs.

Effective internal controls are essential to account for government resources and to ensure that payments are appropriate. Management has the responsibility to institute control procedures that will ensure all transactions are properly authorized and supported. Management's responsibility for establishing effective internal controls includes effective supervisory review procedures to provide reasonable assurance that errors and irregularities will be detected timely. When there are no controls, payments may be made for goods or services that were not received.

Recommendation

The Commissioner should immediately determine why the Assistant Commissioner of Fiscal and Information Services and the Director of Fiscal Services did not take appropriate measures to strengthen the controls over the processing of all disbursements as assured in the department's responses to the last audit. If the department intends to rely on ChipFins to process foster care and adoption assistance payments, procedures should be in place to ensure ChipFins information is reliable and accurate. The Director of Fiscal Services should also ensure that proper supervisory approvals are obtained to minimize the likelihood of mistakes in processing transactions. The internal audit unit should continue to review the department's payment process to determine what changes need to be made to ensure that proper documentation exists for every payment.

Management's Comment

We concur. Program staff have been instructed and are cooperating in a review of all foster care contracts to make sure they are a valid and appropriate foster care contract based on current requirements. This corrective process began in early 1999 and will be completed by the end of this fiscal year for the foster care contracts funded with SSBG. As those foster care contracts are modified, fiscal staff are working to ensure they are correctly funded. A departmental policy has been developed for the review of all foster care contracts within a 12 month period which will also help facilitate the determination of contractual problems. This latter process will be occurring in conjunction with the SSBG process.

The Internal Audit Division, in conjunction with the Planning and Research Division have developed an authorization and approver process for a significant number of non-residential service contracts that are or will be part of the new network system. These controls were to have been implemented April 1999. The goal of the department is to have all claims go through an authorization and approval process before coming to fiscal for payment. After the April 1999 date, the Director of Fiscal Services is to be notified by payables staff of any claims for payment without a signed approval. Information concerning the lack of the required designated approvers signature will be accumulated and reported to management for appropriate corrective action.

Use of a standard claim process to insure that the rates paid agree with the rates contained in the designated contract was started in May of 1997 with improvements being made as determined necessary. We will continue to develop more adequate methods of controls for other contract payments.

In addition, please see the response to finding 98-DCS-02 for additional controls put in place for foster care contracts.

Finding Number	98-DCS-03
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
Pass Through Agency	Department of Health
State Agency	Department of Children's Services
Grant/Contract No.	Various
Finding Type	Reportable Condition, Allowable Costs/Cost Principles
Questioned Costs	$18,072.76

Failure to resolve disciplinary issues in a timely manner resulted in the inappropriate use of state and federal funds for administrative leave with pay

Finding

The Department of Children's Services did not resolve disciplinary issues within a timely manner. In three instances, employees of the department were put on administrative leave with pay while investigations into alleged wrongdoing were being conducted. These employees remained on administrative leave with pay for 1,247 hours, 1,316 hours, and 1,285 hours, for an average of eight and a half months each. Review of the investigation files and the employees' personnel files, revealed that in all three cases, sufficient evidence existed early in the investigation either to remove the employee from administrative leave with pay or to dismiss the employee. There were many consecutive months during each investigation when no action was taken to resolve the matter. Therefore, the employees were not reporting to work, but were being paid even after there appeared to be sufficient evidence at least to put the employees on administrative leave without pay until resolution of the disciplinary issues. Two of the employees were eventually terminated and the other employee was reassigned to different job duties.

One of the employees was investigated for not performing her job duties adequately. It was found that the employee had not performed her job duties satisfactorily and the employee was reassigned to different job duties. Another employee was investigated for falsifying her employment application by not including a previous employer on her application. The employee had been criminally charged with grand larceny from this previous non-state government employer. In addition, the employee took sick leave when she was arrested on these charges. This employee was eventually terminated. The third employee was investigated for misappropriation of state funds and misuse of state property; this employee was eventually terminated for gross misconduct.

Two of the employees' salaries were paid with federal program funds. Since these employees were not benefiting the program during the investigation, it does not seem reasonable that the department continued to use federal funds to pay their salaries. The programs charged are Title IV-E Adoption Assistance ($487.98), Title IV-E Foster Care ($10,163.16), Title IV-B ($776.33), Social Services Block Grant ($8,313.29), and Title XIX (TennCare) ($18,072.76). These payments are included in the Schedule of Findings and Questioned Costs in the Single Audit Report for the year ended June 30, 1998.

According to management, the disciplinary process was not handled timely because there were problems scheduling due process hearings and because of the number of investigations occurring at the same time. By not acting in a timely manner to resolve the disciplinary issues, the department misused federal and state funds.

Recommendation

The Commissioner should take appropriate steps to ensure that investigations and due process hearings are held in a timely manner. Employees under investigation should be taken off of administrative leave with pay as soon as there is sufficient evidence. In addition, the Assistant Commissioner of Fiscal and Information Services should be instructed not to use federal funds to pay salaries while an employee is on extended administrative leave with pay.

Management's Comment

We concur. Efforts are being made to ensure that investigations and due process hearings are held in a timely manner for a department with over 3,000 employees. A departmental policy will be developed so the Director of Fiscal Services will be notified when staff are on administrative leave with pay. Steps will then be taken to ensure that federal funds are not used to pay salaries while an employee is on administrative leave with pay status. The Commissioner has encouraged staff to proceed with appropriate action based on the testimony of investigators rather than wait for the release of written investigative reports.

In at least 50% of the cases handled by the department a grievant doesn't obtain an attorney or other representative in a timely manner to allow the hearing to go forward at the time and date set. This results in numerous delays and continuances in an attempt to coordinate all individual's (the grievant, the grievant's attorney, and the department's representative) schedules and that of the hearing officer's docket. During this time placing an employee on leave without pay could be considered as "taking action" which the department feels in most cases would be improper until the culmination of the investigation. The department will, however, make every effort to complete all investigations in a timely manner.

Finding Number	98-DCS-12
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
Pass Through Agency	Department of Health
State Agency	Department of Children's Services
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

The department did not approve invoices of major medical vendors before payment was made, resulting in a voluntary $281,145.47 refund from a major medical vendor

Finding

As noted in four previous audits, from July 1, 1993, to June 30, 1997, Children's Services did not adequately review the four major medical vendors' invoices for appropriateness, and these payments were not appropriately authorized by a state official. The only signature on an invoice was generally that of the physician, counselor, or nurse providing the service. Management concurred with the prior audit finding and stated that these four contracts ended on December 31, 1997. The vendor submitted invoices for services rendered prior to December 31, 1997, and the department paid these invoices with no approval or authorization by a state employee.

The purpose of the contracts with the four vendors was to provide services for medically fragile children who were not in state custody and who were not case-managed by departmental staff. The department did not require the vendors to prove denial of payment from any other source, such as a managed care organization (MCO) or a parent's private insurance, prior to payment. This control weakness resulted in one of the vendors receiving payments totaling $281,145.47 from the department and from a MCO for the same services. This vendor discovered the duplicate payment and voluntarily refunded the money to the department. There were no controls in place at Children's Services to detect that the vendor had been paid by another source for the same services.

The initial payments to the vendor were at least partially funded with TennCare dollars. Therefore, TennCare paid for the same services twice, once through the MCO and then through Children's Services. As of December 1998, Children's Services had not performed the necessary research to determine the amount that should be reimbursed to TennCare. Consequently, Children's Services has held money that is rightfully due to TennCare for 12 to 18 months without making any effort to determine the amount reimbursable to TennCare.

Recommendation

The Assistant Commissioner of Fiscal and Information Services and the Director of Fiscal Services should ensure that the necessary research is immediately performed to determine the amount of the refund which is due to TennCare. Future contracts should include language requiring proper documentation for verification and approval purposes. Future refunds should be researched and disposed of in a more timely manner. Any additional billings made by these vendors should be thoroughly researched and approved before payment is made.

Management's Comment

We concur. Research has been ongoing to determine the amounts to be refunded to TennCare concerning this vendor. Twenty-four refund checks represented in the finding (13 refunds returned to TennCare as of April 1999 and 11 remaining to be processed) have been received from this medical vendor. As of April 1999, the 13 refunds totaling $45,334.76 have been returned to TennCare. As stated in the finding, the medical contract for this particular vendor ended on December 31, 1997. TennCare and the department's receivables staff are working to reconcile the processing of these 13 refunds. At this time, it is not known how long it will take to complete the reconciliation of these 13 refunds. There are 11 refunds remaining to be researched and sent to TennCare for processing. The department is dedicated to processing these remaining 11 refunds as timely as possible. There will also be a reconciliation process for those refunds. The department is currently developing approval processes for all contracts issued through DCS and will complete this process as timely as regular work schedules allow.

Finding Number	98-DCS-13
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
Pass Through Agency	Department of Health
State Agency	Department of Children's Services
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

The department did not process journal vouchers promptly, which resulted in approximately $419,000 in lost interest income

Finding

As noted in the prior two audits, journal vouchers (used to record expenditure and revenue transactions between state departments) were not always processed promptly. Management concurred with the prior findings and stated that procedures would be developed to ensure that journal vouchers are processed in accordance with the time requirements of the Department of Finance and Administration's Policy 18, "Journal Voucher - Type J." According to management, procedures were developed and implemented after the prior audit period. Management also stated in their prior year comments that the department's internal audit staff would be monitoring for compliance with Policy 18, but this monitoring has not been performed.

In spite of management's assertions during the prior audit, the department did not bill TennCare for targeted case management and administration costs in accordance with Policy 18 during the current audit period. The department did not bill TennCare for services rendered by Children's Services, totaling $22,982,172.06, from July 1, 1997, through December 31, 1997, until March 3, 1998, as much as nine months after the initial expenditure was incurred. Because TennCare bills the federal government for approximately 50% (federal share) of these expenditures, the state lost approximately $419,000 in interest on these funds. In addition, the state lost the use of these funds for up to twelve months. Also, 14 of 60 other revenue and expenditure journal vouchers tested (23.3%) were not processed promptly in accordance with Policy 18.

According to Policy 18, expenditure (paying) journal vouchers which total $2,500.01 to $350,000.00 should be processed within five working days of the receipt of the journal voucher. Revenue (billing) journal vouchers totaling $2,500.01 to $350,000.00 should be processed at least monthly, and those over $350,000.00, within five working days after the expense/ expenditure is incurred.

Errors of this nature and magnitude could jeopardize the state's cash position. If journal vouchers are not processed promptly, the accounting records for the affected departments could be misstated. Also, failure to process journal vouchers in compliance with Policy 18 could affect the state's compliance with the federal Cash Management Improvement Act of 1990.

Recommendation

The Commissioner should determine why the Assistant Commissioner for Fiscal and Information Services and the Director of Fiscal Services did not establish procedures to ensure that journal vouchers were processed in accordance with the time requirements of the Department of Finance and Administration's Policy 18 as promised at the conclusion of the prior audit. Procedures should be established immediately to provide for regular monitoring of journal voucher processing to prevent mismanagement of this significance from occurring in the future. The internal audit division should review for compliance with these procedures and corrective action should be taken whenever the time requirements are not met.

Management's Comment

We concur, however, the department actually billed TennCare. TennCare entered batches in STARS for these journal vouchers in August 1998 after the required final approval was received on the interdepartmental agreement between the Department of Health and the Department of Children's Services in August. The following events delayed the processing of these journal vouchers until March. A major rewrite of the Departmental of Children's Services cost allocation plan for 1997-98 was undertaken at the request of management which included rebuilding over 33 cost allocation tables. The combination of cost allocation plan revisions, rebuilding the 33 tables and the development of a process to record federal administrative revenues in the appropriate cost centers were the major reasons for the delay. During discussions with TennCare about the billing process, it was determined a state plan amendment for the Department of Health would need to be sent to HCFA by TennCare. The state plan amendment dated June 30, 1998 was approved retroactive to April 1, 1998. All required approvals on the interdepartmental agreement were in place on August 14,1998. The journal vouchers were processed by the Department of Finance and Administrations Division of Accounts on August 20, 1998. Fiscal staff are exploring ways to improve this process in the future.

The finding states that 14 of 60 expenditure journal vouchers were not processed promptly in accordance with Policy 18. Thirteen of those journal vouchers relate to billings by the Department of Education for the School Food and Nutrition program. A request has been sent to the Director of Accounts requesting ten days to process these type of journal vouchers due to the number of staff and the number of steps involved in the verification process, which is required for adequate support for the expenditure. The other journal voucher was submitted late by one of the Youth Developmental Centers due to ACA accreditation deadlines. Accounting staff at that Youth Development Center will be informed about the importance of adhering to the requirements of Policy 18.

In addition, the fiscal division of DCS is in the process of developing policies and procedures to address the Policy 18 compliance issue.

Finding Number	98-TDH-02
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9705TN5028, 05-9805TN5028
Finding Type	Material Weakness
Questioned Costs	None

TennCare eligibility verification procedures are not adequate

Finding

The three prior audits of the Bureau of TennCare noted that in many cases, the eligibility of TennCare participants who are classified as uninsured or uninsurable had not been verified. Management concurred with the prior finding, stating that face-to-face enrollment and reverification projects would confirm eligibility information onsite. However, based on this audit, verification procedures did not adequately ensure all TennCare participants were eligible. Additionally, TennCare does not have an effective method to monitor the eligibility of TennCare/Medicaid recipients who are eligible because they receive Supplemental Security Income (SSI). See 98-TDH-17 for more information on the ineffective monitoring of SSI eligibility.

TennCare's reverification project began in June 1998, the last month in the fiscal year, and established face-to-face interviews for eligibility updates. This project was intended to reverify the eligibility of one-twelfth (1/12) of the entire uninsured and uninsurable population each month. TennCare also relied heavily on updates to the TennCare Management Information System (TCMIS) for reverifying eligibility through data matches and information received from various sources. These verification procedures, however, did not adequately ensure all TennCare participants were eligible.

Testwork revealed that 42 of 245 (17%) uninsured and uninsurable participants had not had their eligibility information updated in the last year. For 21 of the 42 found without updates, eligibility information had not been verified since initial enrollment in 1994.

Furthermore, using computer-assisted audit techniques to search the TennCare Management Information System (TCMIS), auditors found several TennCare participants had "pseudo social security numbers," e.g., numbers that began with 8 or had all zeros in one field. According to TennCare personnel, some applicants who do not have their social security cards and/or newborn children who have not yet been issued social security numbers are assigned these "pseudo" numbers. Management concurred with the prior finding stating that the reverification project described above would help ensure that valid numbers are obtained for enrollees when available.

Testwork revealed that 84 of 140 (60%) individuals found with "pseudo" social security numbers had not had a correct social security number entered on TCMIS, although the enrollment dates exceeded almost a year. Some of the TennCare participants found had been enrolled as early as 1983. Also, while it is not always possible to obtain social security information for newborns (0-3 months), auditors noted that several individuals with pseudo social security numbers were over a year old. As noted in the prior audit, management stated that TennCare strives to provide needed care to children as soon as possible and that the reverification project would help ensure that valid numbers can be obtained after enrollment.

According to the *Code of Federal Regulations*, Title 42, Section 435.910, the state agency must require, as a condition of eligibility, that those requesting services (including children) provide social security numbers. Additionally, Section 3(g) of the Code states that the agency "must verify the social security number of each applicant and recipient with the Social Security Administration, as prescribed by the Commissioner, to insure that each social security number furnished was issued to that individual, and to determine whether any others were issued."

Adequate verification procedures are needed to ensure that only those eligible are enrolled in TennCare. According to Office of Management and Budget Circular A-133, payments are only allowed for individuals who are eligible for the TennCare/Medicaid program. The average amount paid per month to a managed care organization and to a behavioral health organization is $104 and $22, respectively. In fiscal year 1998, the Bureau paid $1,744,414,397 to MCOs and $325,590,444 to BHOs for TennCare enrollees.

Annual reverification is also necessary to obtain current, accurate information about family size, income, Tennessee residency, and access to other insurance. This information is also needed to determine whether participants previously considered eligible have become ineligible because of changes in their family or personal circumstances. Also, this information is used to determine the correct premium and deductible amounts paid by participants. TennCare's inadequate verification procedures will be reported as a repeated material internal control weakness in the 1998 Tennessee Single Audit Report.

Recommendation

The Commissioner and the Assistant Commissioner for TennCare should ensure that verification procedures are adequate, timely, and fully implemented. To evaluate the effectiveness of the procedures, reports detailing verification results should be produced regularly and reviewed for content and accuracy by the Director of Operations. Appropriate steps should be taken in response to the results of those reports. If reports are not made timely, the reason for the delay should be determined and corrected.

Management's Comment

We concur that a formal face-to-face reverification process for the uninsured/uninsurable was not in place during the audit review period. As stated by TennCare to previous audit findings, even though a formal reverification process was not in place during the audit period, attempts were made to update enrollee information based on data obtained through various sources.

In April 1997, the TennCare Section of Information Services and the Facilities Manager (EDS) designed and implemented a new application processing subsystem. In conjunction with the new system, an on-line edit was created that would flag enrollees with duplicate applications. The edit reported any new application for an enrollee that had existing TennCare eligibility under another uninsured/uninsurable application. This edit condition created a reporting mechanism that allowed TennCare to identify applications for enrollees with existing eligibility after the records had updated the TCMIS database. A process was implemented to compare the information reported on the new application against the information provided on the older application. Since the new application contains the more current information, the older case is closed. This review includes comparison of family members, income and other pertinent information. While this process depends on the submission of a new application and has not occurred on all cases, we consider updated information on the uninsured/uninsurable cases meeting this condition to be part of reverifying their eligibility.

TennCare officially implemented a face-to-face Reverification System in June 1998. The design, development, testing and implementation occurred during this audit review period. TennCare initiated various reverification projects during the past three years. It is important to note that the new application processing system implemented in April 1997 became the foundation of the current production Reverification System. The enhancements of the current application subsystem eliminated many of the obstacles that prevented previous reverification implementations.

Information Services conducted numerous meetings with Health Department and TennCare Policy staff on the overall design and development of the Reverification project. The meetings were critical to evaluate staffing needs and system load/processing capabilities for 95 county Health Departments who would be responsible for conducting reverification interviews.

Reverification application data entry screens were constructed with on-line connectivity for all county Health Departments to the TennCare Management Information System (TCMIS). The screens would allow the Health Departments to enter new case information and edit the data for approval /denial results. Edit logic was implemented that provided Health Department staff with a screen that detailed whether the enrollee would remain eligible for TennCare. The screen would provide the detailed reason why an enrollee would no longer be eligible. Training regions were established within the OIR CICS on-line system for use by Health Department staff for Reverification training. In addition, a training packet that detailed reverification information was prepared to assist in the training process.

The Health Departments included information in their training that addressed validation of Social Security Numbers and obtaining a valid number for enrollees with pseudo numbers. As stated in this audit finding, pseudo Social Security number assignments will continue to occur for newborns because TennCare does not want to delay a child's access to health care because they haven't received an official Social Security number.

Notices are generated to cases that have been reverified. Each notice details family members approved for continued eligibility. Notices are also generated to enrollees losing TennCare eligibility, which informs them of their appeal rights.

The Bureau of TennCare worked with key Health Department staff in the determination on the number of cases to select for reverification each month. Staffing and other Health Department required activities were considered in the number of monthly cases selected for reverification.

The initial uninsured/uninsurable population targeted for Reverification included all cases added 1994 through 1996. The following describes the status of the project through June 1, 1999. These numbers represent approximately 80% of the original projected number of cases for this time period. These numbers have not been reviewed by the auditors.

- 81,871 Reverification Initial Selection notices mailed (Cases)
- 41,495 Reverification Cases completed by Health Departments
- 37,643 Reverification Cases Approved for continuing eligibility
- 3,021 Enrollees terminated through Reverification process
- 5,967 Cases have members who have been terminated for undeliverable mail or no response to initial Reverification notice

The Reverification system produces numerous outputs that are used to monitor reverification activities. These reports are shared with key TennCare staff and other departments who are involved in Reverification monitoring.

Finding Number	98-TDH-03
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9705TN5028, 05-9805TN5028
Finding Type	Material Weakness, Subrecipient Monitoring
Questioned Costs	$3,523.66

TennCare has not monitored TennCare-related activities at the Department of Children's Services

Finding

As noted in the previous audit and despite management's concurrence with the finding, TennCare has not monitored the Department of Children's Services (Children's Services) to ensure the accuracy and allowability of billings from that department. During the year ended June 30, 1998, TennCare paid approximately $101 million in fee-for-service reimbursement claims to Children's Services. TennCare's failure to ensure Children's Services complied with all federal laws, regulations, and guidelines will be reported as a material internal control weakness in the 1998 Tennessee Single Audit report for the second year.

In accordance with its agreement with the bureau, Children's Services contracts separately with various practitioners and entities ("service providers") to provide health care benefits not provided by the managed care organizations (MCOs) and the behavioral health organizations (BHOs) under contract with TennCare. Children's Services pays these providers and bills TennCare for reimbursement.

TennCare has relied on Children's Services to ensure the following:

- Only services allowable under the grant are billed.
- The amounts billed are correct and allowable.
- The expenditures are valid and properly supported.
- Only eligible, licensed, or certified providers are providing the services.

Although TennCare relies on Children's Services to ensure compliance, the bureau does not monitor Children's Services.

This reliance includes not establishing predetermined, preapproved payment rates in the TennCare Management Information System (TCMIS), TennCare's claims processing and payment system, for all of the claims billed by Children's Services. When no rate is established in TCMIS, the system is programmed to pay any amount billed by Children's Services, without limit. TennCare has also relied on Children's Services to determine the treatment rates paid to the service providers for children in the state's custody. Children's Services pays the service providers for all services (treatment, room and board, and education) directly, then is permitted to bill TennCare only for the treatment portion. Based on testwork performed and numerous discussions with Children's Services management, management could not provide information as to how the treatment portion was determined. Without a methodology to determine the true treatment costs incurred by the service providers, Children's Services may be over- or underbilling TennCare for costs associated with medically necessary treatment. Because actual treatment costs could not be determined, auditors could not determine the amounts of possible overbillings to the federal government.

Testwork on Children's Services claims also revealed the following:

- No supporting documentation (e.g., no case files and related details) for 4 of 60 claims tested. The amount questioned will be $1,616.50.
- Children's Services billed TennCare for days when a child was on runaway status and no treatment costs were incurred by the service provider. The amount questioned is $1,364.94.
- Children's Services is paying service providers directly for children in custody who are classified as Seriously Emotionally Disturbed (SED). TennCare has also paid the enhanced BHO capitation rate for these children. The amount questioned will be $2,555.28.

Similarly, Children's Services claims are not reviewed or tested by TennCare's internal auditors, other bureau personnel, or the Department of Finance and Administration's Division of Research and Support. Although this problem was identified in the prior year's report, the TennCare bureau, again, has not monitored Children's Services' practices and ultimately was unaware that Children's Services billed for the health care costs of incarcerated children who were not eligible for Medicaid (TennCare). See 98-TDH-10 for more details.

As noted in the previous audit, the TennCare Bureau had only to review the audit reports on the Department of Children's Services to note serious compliance and internal control problems. For the past four fiscal years, the audit reports on Children's Services have contained numerous findings, many of them repeated from year to year. Although the testwork at Children's Services did not always include TennCare transactions, the general lack of internal control presents an unacceptable level of risk for TennCare transactions. TennCare management concurred that the level of risk for TennCare transactions was unacceptable. The deficiencies listed below highlight this risk:

- Duplicate payments and overpayments were made to providers.
- Invoices did not contain certification that services had been provided.
- Invoices were not properly approved for payment.
- Documentation was not sufficient to verify the allowability of payments.
- Controls are insufficient to prevent unauthorized changes to the system used to process payments.
- Reimbursement requests for federal dollars are not made in a timely manner.

Recommendation

The Commissioner should determine why Bureau staff failed to ensure that the Department of Children's Services properly administered its responsibilities under the TennCare program. All necessary steps should be taken to ensure that Bureau staff monitor Children's Services regularly for fiscal and programmatic compliance. The Commissioner and Assistant Commissioner should work with Children's Services to establish treatment costs for children in state custody.

Management's Comment

We concur. The Department of Health has entered into an agreement with the Department of Finance and Administration to monitor several aspects of the Department of Children's Services including internal controls. We have also met with the Department of Children's Services to review deficiencies noted by the fiscal year 1997 Comptroller audit of DCS, and the agreement with the Department of Finance and Administration will be used to follow-up on the corrective actions proposed by DCS. A task force headed by the Department's Director of Budget and Finance is working to establish a new rate setting methodology for children in state custody.

Finding Number	98-TDH-04
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9705TN5028, 05-9805TN5028
Finding Type	Reportable Condition
Questioned Costs	None

TennCare Management Information System lacks the necessary flexibility and internal controls

Finding

Management of the Bureau of TennCare has failed to address critical information system internal control issues. In addition, the TennCare Management Information System (TCMIS) lacks the flexibility it needs to ensure that the Department of Health and ultimately the State of Tennessee can continue to run the state's $3.6 billion federal/state health care reform program effectively and efficiently.

Because of the system's complexity, frequent modifications of the system, and because this system was developed in the 1970s for processing Medicaid claims, TennCare staff and Electronic Data Services (EDS) (the contractor hired to operate and maintain the TCMIS) primarily focus on the critical demands of processing payments to the managed care organizations, behavioral health organizations and the state's nursing homes rather than developing and enhancing internal controls of the system.

According to Bureau personnel, the Director of Information Services alone prioritizes any system change requests, work requests, or any special requests for system information. If such a request does not involve the payment function to the external contractors, it is unlikely to be viewed as a priority according to bureau staff. Furthermore, the Director of Information Services does not penalize EDS when the contractor fails to perform under its contract.

As evidenced by the number of new and repeat findings, management of the department has not made internal control a priority. The TennCare bureau

- has not strengthened system security controls related to access (98-TDH-05), which resulted in a material weakness in internal control;
- currently utilizes two systems to prepare the required federal reports (98-TDH-06);
- has not made payments to certain providers in accordance with the rules (98-TDH-07);
- has not strengthened system controls for Medicare professional cross-over claims (98-TDH-08);
- made capitation payments for individuals who were not eligible for TennCare (98-TDH-09 and 98-TDH-10);
- failed to promptly update the system to process $59 million of mental health waiver claims and reimburse the Department of Mental Health and Mental Retardation timely which resulted in lost interest income on the $59 million of state funds used to pay that department's providers (98-TDH- 11);

- did not provide information necessary to conduct audits of TennCare timely (98-TDH-12).

In its three-year information system plan dated July 1, 1998, TennCare submitted a proposal to study the replacement of TCMIS. According to Bureau personnel some progress has been made; however, due to concern about year 2000 issues, progress has been slow.

Recommendation

The Commissioner and the Assistant Commissioner for TennCare should consider the seriousness of the findings contained in this report and the nature and broad extent of repeat findings and make a commitment to regain control of the program. The Assistant Commissioner should assist the Director of Information Services in setting priorities for system changes and updates. Internal control responsibilities should be taken more seriously and given a higher priority. Penalties should be enforced as allowed by the contract when EDS fails to perform as required. In addition, the department should pursue the acquisition of a system designed for the managed care environment. The Commissioner and the internal audit unit should frequently monitor the activities of the responsible individuals correcting the problems and determine whether progress is being made. The Commissioner should take appropriate action if the problems are not corrected in accordance with the plans of action.

Management's Comment

We concur in part with the finding that the current TennCare Management Information System (TCMIS) should be analyzed to ensure that the TCMIS will continue to support the overall mission and goal of the TennCare program.

Prior to the inception of the TennCare program, the Information Systems in place were stable. The implementation of the TennCare program resulted in substantial new business and programming requirements. Furthermore, changes in business requirements and their relative priorities continue to drive new requirements and priorities for information systems support. These stages can be expected to continue until the program becomes more mature and predictable.

The overall information systems design does currently supply functional capability to address many of the critical TennCare business needs. However, the information systems in several areas of the TCMIS does not support the requirements adequately.

The current TCMIS uses a single-tier technical architecture consisting of the host computer (IBM compatible legacy mainframe), MVS/ESA as its operating system, TSO/CICS/-Cobol II as the development environment and VSAM as the vital structure. The TCMIS contains well over 200 gigabytes of data and is accessed by numerous TennCare users. This technical architecture is adequate in areas such as the maintenance of a large enrollee eligibility database and the processing of capitation payments to MCOs and BHOs. However, certain areas of the TCMIS do not adequately support the business environment. Data is maintained on separate large files and critical information within each file is not consolidated within a single database. Access to and quick retrieval of information contained within the TCMIS is cumbersome. Ad hoc reports are slow to execute because they run against large databases which were originally designed for data entry and transaction processing and not originally designed for data access and retrieval.

TennCare was able to provide significant improvement in the area of data analysis through the acquisition and implementation of the decision support system which utilizes the PANDORA software in which data storage is highly structured and uses an operational database geared for data access and retrieval. This decision support system is utilized to analyze encounter data reported by the MCOs and BHOs to TennCare.

Because of the integrated nature of a managed care information system, there is little opportunity to replace one module of the TCMIS with the "Best in Class Module from any commercially available managed care information systems." We believe that opportunities exist to replace and/or layer additional subsystems on top of the TCMIS base in order to supply flexible functionality more rapidly. The Department currently has a project proposal to study replacing or adding layers to the existing TCMIS with newer technology. The Commissioner has been meeting with key TennCare staff within the Department and the Bureau of TennCare and with key staff from the Department of Finance and Administration to review the overall business goal and objectives of this proposal.

We do not concur with the finding that the Director of Information Services alone prioritizes any system change requests. The priorities for the TennCare program are set by the Assistant Commissioner. These priorities are influenced by: the program needs, needs of our Federal partner, input from other State officials, and input from provider and consumer groups. It is the Director of Informations Services responsibility to prioritize the information system work in order to address the program priorities set by the Assistant Commissioner. A formal process for managing the deployment of information systems resources to support program priorities exists. Ensuring that program priorities are being addressed is a major goal of the TennCare Information Services Director and his staff. Their daily activities include formal meetings with TennCare Facilities Manager Contractor, EDS. Every effort is taken to formally identify resources available for systems development and system change requests and to produce reports to meet information requests. With the immense demands placed on the old system, pressures can increase for immediate needs. The TennCare Information Services Director is dedicated and committed to rapid response in spite of system limitations.

The facility's manager contractor has experienced difficulties in retaining staff with TCMIS experience. This impacts TennCare's ability to respond to request for information requiring ad hoc reports. However, every effort continues to occur in ensuring that priority requests are responded to timely and that all requests are responded to in a responsible manner. The TennCare Information Services Director is working with current EDS TennCare account management to identify and implement options for responding to the increasing demands on the system. It should be noted that the current year 2000 project has had and is having an impact on the availability of resources. The Information Services Director will work with the Assistant Commissioner when applicable to enforce penalties when the contractor fails to perform adequately. The contractor recently was placed on liquidated damages penalty for failure to complete specified contract requirements by the designated due date.

Internal control will be focused on as a high priority. A plan of action will be developed to address weaknesses. The Internal Audit unit will monitor the progress of the individuals implementing the plan of action to assure appropriate action in accordance with the plan.

Auditor's Comment

Based on interviews with bureau staff, the auditors' understanding was that the Director of Information Services prioritizes the deployment of information resources. The process of deployment was not fully described until "Management's Comments" were received on June 7, 1999.

Finding Number	98-TDH-05
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9705TN5028, 05-9805TN5028
Finding Type	Material Weakness
Questioned Costs	None

Controls over access to the TennCare Management Information System are weak and inadequately documented

Finding

One of the most important responsibilities, if not the most important, for the official in charge of an information system is security. The Director of Information Services and the Security Administrator have held these positions at TennCare for five and four years respectively. The Director of Information Services is responsible for but has not implemented adequate TennCare Management Information System (TCMIS) access controls. As a result, numerous deficiencies in controls were noted during system security testwork. In addition, existing controls are not adequately documented. These weaknesses will be reported as a material internal control weakness in the 1998 Tennessee Single Audit report.

The TCMIS contains extensive recipient, provider, and payment data files; processes a high volume of transactions; and generates numerous types of reports. Who has access, and the type of access permitted, is critical to the integrity and performance of the TennCare program. Good security controls provide that access to data and transaction screens be limited to a "need-to-know, need-to-do" basis. When system access is not properly controlled, there is a greater risk that individuals may make unauthorized changes to the TCMIS or inappropriately obtain confidential information, such as recipient social security and Medicaid identification numbers, income, and medical information.

Current and complete documentation is necessary to adequately administer and monitor user access and system security and to increase accountability to management and internal and/or external auditors. Audit testwork revealed the following discrepancies.

No Security Authorization Forms

Access to TCMIS is controlled by Resource Access Control Facility (RACF) software. The purpose of RACF is to prohibit unauthorized access to confidential information and system transactions. The TennCare Security Administrator in the Division of Information Services is responsible for implementing RACF, as well as other, system security procedures.

The Security Administrator assigns a "username" ("RACF User ID") and establishes at least one "user group" for all TennCare Bureau and TCMIS contractor users. User groups are a primary method by which RACF controls access. Each member of a user group can access a set of TCMIS transaction screens.

The Security Administrator assigns every user to the "default group." To determine which other user groups, if any, an individual should be placed into, the Security Administrator determines the type of access other employees in the new employee's work area have and assigns him or her the same type of access. Therefore, access may not be assigned based on true needs because there is no signed and approved security authorization form or documentation explaining the type and level (inquiry or update) of access required, except for programmers.

Failure to require signed security authorization forms with proper supervisory approval makes it more difficult to monitor user access. For example, it is not possible to compare the type and level of access needed and requested with the type and level of access given.

Unnecessary Access to TCMIS

User access testwork revealed that all users in the default group have access to at least 44 TCMIS transaction screens, some of which are not necessary for the performance of each user's job duties. Because of the lack of documentation, we were not able to determine the exact number of transaction screens available to the users in the default group or the nature and purpose of each transaction available. More generally, the Director of Information Services did not provide a comprehensive list and detailed descriptions of all TCMIS transaction screens, i.e., the transactions available to users in the default group and transactions available to users assigned to additional groups, as well.

Transaction Screens Not Protected

As discussed earlier in this finding, typically users must have a RACF user ID to sign on to TCMIS and access TennCare transaction screens. The auditors discovered that many transaction screens, including but not limited to recipient inquiry, eligibility history inquiry, Medicare history inquiry, long-term history inquiry, and liability history inquiry could be accessed without a user ID. This could occur if a user pressed a particular function key during the sign on process. The function key enabled the user to bypass the sign-on process and go directly to the transaction command screen. At that point, the user could enter one of the transaction screen commands and obtain unauthorized access.

This condition apparently existed because security levels for many screens were set to minimal values to facilitate a quick switchover when the old Medicaid system was modified for TennCare purposes. This occurred five years ago, but apparently no correction of the security weakness had been considered. Based on discussion with management during fieldwork, auditors recommended TennCare management review security settings for all screens and set the appropriate security parameter tables and security keys as deemed necessary.

More Lack of Documentation

TennCare personnel did not provide the following basic and essential information:

- documentation describing the purpose and proper composition, by job function, of the various TennCare user groups;
- a complete list and descriptions of all "external" TCMIS users, and explanations why the access is needed (external users were defined as users who are not employees of TennCare or the TCMIS contractor);
- the access to individual transaction screens available to all TennCare, TCMIS contractor, and external TennCare users;
- an overall diagram of the TCMIS that shows all of the various subsystems and modules;
- a list and description of the TCMIS-related functions performed by the Office for Information Resources (OIR), Department of Finance and Administration; and
- a list of policy and procedure manuals concerning the use and control over the TCMIS (both user and technical manuals).

It is difficult to understand how the individuals responsible for this system could perform their duties without having this information readily available. When this type of fundamental information is not available and organized it calls into question how the system can be effectively managed at all.

Security Administration Not Centralized

Testwork also revealed that the Security Administrator for the Department of Health, who is separate from TennCare's Security Administrator, gives users access to TCMIS. The department's Security Administrator is not required to notify the TennCare Security Administrator when users are given access to TCMIS. Furthermore, if users' RACF user names expire, the TennCare Security Administrator can reinstate the access of users given by the department's Security Administrator, and vice versa. When access to TCMIS is decentralized it is more difficult to monitor and control.

The TennCare Security Administrator relies on security administrators in other departments when a user in another department wants access to TCMIS. Although other departments' security administrators contact the TennCare Security Administrator to obtain the access, no explanation of why access is needed is required before access is given.

Lack of Monitoring

According to TCMIS system security personnel, users' type and level of access is not reviewed periodically. In general, management relies on individual supervisors to contact the Security Administrator if changes are needed. The Security Administrator stated, however, that often he was not informed. Although one would expect that if more access were needed users would contact the Security Administrator promptly, however users may not be as concerned about reporting the need for less access, as a result of changes in job responsibilities.

TennCare Application Data Entry Weakness

A report issued by the department's Office of Audit and Investigations in April 1998 noted that because TCMIS is "routinely down" employees at the Lakeshore Mental Health Institute leave "the system 'open' with their password allowing other employees to access the system." In addition, the report stated that adequate controls did not exist to prevent employees who enter TennCare application information into TCMIS from also approving the applications on-line. Good segregation of duties dictates that the data entry function should be separate from the approval function so that the same person cannot enter and approve a transaction. The auditor contacted the Director of Information Services to determine whether the concerns raised by the internal auditors had been addressed; however, no information was provided.

Employee Termination Procedures

According to the Security Administrator, TennCare has no procedures to ensure that user access is promptly canceled when employees are terminated from the department or the TCMIS contractor. The Security Administrator stated that supervisors for the contractor sometimes call him with the names of persons hired to replace terminated employees; however, he believed that improvement in this area was needed.

New TCMIS Transactions

As noted above, the auditor asked for a listing, with detailed descriptions, of all TCMIS transaction screens. Related to this, the auditors asked the Security Administrator if there were procedures in place to ensure that he was informed, on a timely basis, of new TCMIS transaction screens.

The Security Administrator stated that the TCMIS contractor sends a form to the Office for Information Resources (OIR) in the Department of Finance and Administration when a new transaction screen is ready to be placed into production. The Security Administrator, however, does not receive a copy of the form and typically is not informed about new transactions in a timely manner. In addition, the Security Administrator stated that at times he had to guess which users needed access to new transaction screens.

Recommendation

The Director of Information Services should set a tone for serious commitment to internal controls and recognize the obligation to protect confidential client information against unauthorized access. Specifically, the Director of Information Services should require employees to complete and sign request forms that document their specific system access needs. A supervisor should approve the request forms, and the Director should review the forms to determine if the requests appear appropriate. The same or a similar form should be obtained from all external users before access to TCMIS is provided. The forms should include the user's name, position, and division.

The Director should redefine user groups to strengthen access controls. The Director also should ensure that adequate system security records and documentation are maintained. Also, all transaction screens should be properly secured and all documentation should be provided to the auditors, as soon as possible, upon request.

Responsibility for TCMIS security should be centralized under the TennCare Security Administrator. The Director should ensure that system security monitoring procedures are developed, written, and implemented. A record of the procedures performed, and the results, should be maintained. The Director needs to make internal control a priority and should ensure the Security Administrator promptly addresses system security and concerns raised by the internal auditors.

Management should ensure that procedures are developed and implemented to promptly cancel access of terminated employees. Periodic tests should be performed to determine that terminated employees are promptly removed from the system. The Director should take the necessary measures to ensure that adequate information about new TCMIS transactions is provided to the Security Administrator. The Security Administrator should not guess, but be informed, in writing, who should be given access to new transactions and the type of access (inquiry or update) required. Finally, supervisors should notify upper management when security breaches occur.

Management's Comments

We concur that there should be internal security controls for the TennCare Management Information System (TCMIS). The TennCare Director of Information Services and his staff are committed to protecting confidential client information. While we agree that all procedures may not be documented, there are procedures in place to control unauthorized manipulation of files.

During the review period, a formal procedure manual did not exist. Since then, the TennCare Information Services Security Administrator has begun the task of documenting the procedures that are in place in addition to those that are being implemented.

We are currently reviewing all processes that are in place to ensure that there are sufficient security measures in place, as well as adding procedures/policies where they are lacking. A new security authorization form is being developed and should document each employee's specific system access needs. External users will also be required to use the security authorization form.

No Security Authorization Forms

The Security Administrator conducts ongoing reviews to determine if there are users who do not have a security agreement on file. The security agreement forms are sent to the appropriate personnel to have signed and returned for filing. The current procedures in place require that the signed Security Agreement form be received before any ID is activated. Users and their managers that are identified without the proper security agreements on file receive notification that their RACF ID's will be revoked until the proper paperwork has been submitted. When the new security authorization form is implemented, periodic reviews will be conducted to assure their completeness and ongoing accuracy.

Unnecessary Access to TCMIS

While the default group has numerous transactions for inquiry and users in these groups may not have a need to use all transactions, they do perform functions that may require some or all types of inquiry, which are critical to TennCare business functions. The Director/Manager of each respective section or department is responsible for informing the TennCare Security Administrator which transactions are needed to perform their functions. The new security authorization form will contain information about each user to document particular need for access to various components of the system. A review is being done to the user groups to verify that the types of transactions for all groups are as they should be. Changes will be made as necessary.

Transaction Screens not Protected

This has been resolved. During the review, the audit team brought to our attention that a user could access inquiry to the system by pressing the F3 key to bypass the sign on screen. This was corrected immediately by the Information Services Section so that if an attempt was made to enter a transaction after the sign on screen was bypassed, an error message was returned.

More Lack of Documentation

The TennCare Information Services Director and his staff will review the items listed and assure that the necessary documentation is placed in the TennCare Security Administrator manual.

Security Administrator Not Centralized

We agree that it is necessary for the Security Administrator to be centralized. It is equally necessary for the Administrator to have sufficient backup. The Security Administrator for the Department of Health has served that purpose. TennCare was under the Department of Health at the time of the audit. The Bureau will explore naming a Bureau employee for backup. All security requests will be submitted to the TennCare Security Administrator and external users will be required to document why access is needed before access will be given.

Lack of Monitoring

Procedures are now in place to review all RACF ID security periodically.

TennCare Application Data Entry Weakness

The TennCare Security Administrator can not control whether a user leaves his/her ID signed on. Measures are in place and have been in place that systematically logs a user out of the system after a designated period of inactivity as defined by the Department of Finance and Administration, Office of

Information Resources. TennCare will ask the Internal Audit unit to review the current application processing function to assure appropriate segregation of duties.

Employee Termination Procedures

Procedures are in place to notify the TennCare Security Administrator when an employee terminates to revoke their ID. The TennCare Information Services Section is working with all TennCare Sections, departments, and users to ensure that the Security Administrator is notified timely when their employees are terminated. The Internal Audit unit will conduct periodic tests to assure that terminated employees are promptly removed from the system.

New TCMIS Transactions

As new TCMIS transactions are implemented, descriptions will be added to the TennCare Security Administrators procedure manual along with RACF Security designations submitted in writing with other information deemed necessary.

Auditor's Comment

Security Administration Not Centralized

We agree that the TennCare Security Administrator needs sufficient backup. During the audit period, however, the Security Administrator for the Department of Health acted in more than a "backup" capacity. Based on discussions with both the TennCare Security Administrator and Health's Security Administrator, Health's Security Administrator generally acted independently of the TennCare Security Administrator. Health's Security Administrator gave access to the TCMIS without consulting with or informing the TennCare Security Administrator. In fact, the TennCare Security Administrator was not aware of some of the transaction screens to which the Health Security Administrator was giving users access. Also, as stated in the finding, Health's Security Administrator was not required to notify the TennCare Security Administrator when access to the TCMIS was given.

Employee Termination Procedures

It is not clear from "Management's Comment" whether management disagrees with this section of the finding or if the procedures mentioned were implemented subsequent to the audit. During audit fieldwork the Security Administrator stated that he usually learned that an employee was leaving (or had already left) by word of mouth or, as stated in the finding, when supervisors with the TCMIS contractor sometimes called to notify him of personnel changes.

Also, the comment does not explain the nature of the procedures being used, e.g., an employee termination form or checklist. We strongly recommend that the Commissioner and the Director of TennCare ensure that formal procedures are developed and implemented to insure that the system access of terminated employees is canceled immediately.

During the next audit, the auditors will follow up on the finding to determine the existence and effectiveness of the procedures described by management.

Finding Number	98-TDH-06
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9705TN5028, 05-9805TN5028
Finding Type	Reportable Condition
Questioned Costs	None

TennCare's Medicaid Accounts Receivable Recoupment System is an impediment to the collection of cost settlements and accurate federal financial reporting

Finding

As noted in the prior audit, the Medicaid Accounts Receivable Recoupment System (Recoupment System) is adversely affecting collection of provider cost settlements and federal financial reporting. This system, a database created many years ago to track and age Medicaid program receivables (including provider cost settlement receivables), should not be relied on because it contains old, inaccurate information.

Although aware of the system's unreliability, TennCare still uses the system to determine the amount of overpayment adjustments (reductions in expenditures claimed because of overpayments) reported on quarterly federal expenditure reports to the Health Care Financing Administration (HCFA). However, management is concerned enough about the system's reliability to delay requests to Medicare to withhold provider payments until the cost settlement balances can be researched and confirmed using the provider account information in the TennCare Management Information System (TCMIS). (See 98-TDH-15 for more information about working with Medicare to collect provider cost settlements.) TennCare uses both systems because the TCMIS has not been modified to age receivables and does not provide the detail needed to easily track and analyze the receivable accounts.

When the provider balances on the Recoupment System were compared to those on TCMIS, the more reliable system, discrepancies were noted creating uncertainty about the exact amounts some providers owe TennCare for cost settlements. Because of the complexity of TCMIS and the many transactions it processes daily (e.g., new and voided claims, retroactive rate adjustments), management had been reluctant until recently to undertake the time-consuming task of reconciling provider balances on the two systems. Had the balances on the two systems been reconciled periodically over time, TennCare would not now be having such difficulty.

When management reconciles the two systems, action can then be taken to collect the amounts due the state. However, it was determined that the on-site TCMIS contractor, Electronic Data Systems, takes two to three months to apply provider payments to the respective accounts receivable account. This delay creates large timing gaps between the two systems and adds confusion as to the correct amount of the receivable. In some instances, money was refunded to the provider when the provider actually had a zero balance or still owed TennCare.

Management concurred with the prior finding and hired an accountant to reconcile the systems. In addition, management stated that they were pursuing obtaining aged accounts receivable data through the TCMIS. Because this would require programming modifications to TCMIS, personnel in the Division of Budget and Finance submitted a "system change request" form to the Director of Information Services on April 3, 1997. As of November 1998, however, the requested system changes had not been made.

Accurate financial information is essential to effectively manage the fiscal operations of TennCare. When financial information and the systems used to compile the information are unreliable, management cannot make sound financial decisions, take appropriate action, and ensure the accuracy of federal financial reporting. In addition, it is time-consuming and costly to maintain and reconcile two computer systems.

Recommendation

To eliminate unnecessary or duplicate work and improve program financial management, including collection of accounts receivable, the Fiscal Director and his staff should perform a comprehensive review and assessment of their accounts receivable systems and procedures. The review should include the related procedures of the TCMIS contractor. Based on the results of the review, the Fiscal Director should take the appropriate steps to implement all needed changes, including system changes.

In the meantime, the Fiscal Director should ensure the provider balances on the TennCare Management Information System and the Medicaid Accounts Receivable Recoupment System are reconciled at least quarterly. Management should focus first on the most significant balances.

The Director of Information Services should ensure that the TCMIS is modified promptly to accommodate the financial management and reporting needs of the Division of Budget and Finance.

Management's Comment

We concur. The Bureau Fiscal Director and his staff will perform a comprehensive review and assessment of the accounts receivable systems and procedures. Staff will continue to take steps to identify and reconcile balances between TCMIS and the Recoupment system. The Director of Information Services will work with the Director of Budget and Finance to modify or convert the existing Recoupment system to eliminate the need to reconcile between the two systems.

Finding Number	98-TDH-07
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9705TN5028, 05-9805TN5028
Finding Type	Reportable Condition
Questioned Costs	None

As previously noted, since 1995 TennCare continues to not pay certain providers in accordance with the departmental rules

Finding

As noted in the prior two audits, covering the period July 1, 1995, through June 30, 1997, because TennCare has not complied with departmental rules, providers caring for enrollees who are both TennCare and Medicare recipients are sometimes overpaid. Management concurred with the prior findings and recommendations, and stated in fiscal year 1996 and again in fiscal year 1997, management would examine whether it is more appropriate to change the rules or their method of payment. However, no changes to the computer system or the rules have been made.

According to the Director of Fiscal Services, as of February 1999, TennCare is still researching the rules and has not determined whether it is more appropriate to change the rules or the computer system.

Medicare recipients are required to pay coinsurance and a deductible to the provider for services received. If the patient is also eligible for Medicaid, Medicare bills TennCare instead of the patient for the coinsurance and deductible. According to departmental rules, the total amount paid by all parties (Medicare, patient, and TennCare) cannot exceed the fee limitation set by TennCare. However, TennCare's computer system always pays the entire deductible billed for outpatient hospitalization services regardless of how much Medicare or the patient paid or any limitations set by the Medicaid fee schedule.

Recommendation

The Commissioner should determine why the staff has taken so long to research the rules and make a decision whether the method of payment or the rules should change. When a final decision is made, the Assistant Commissioner for TennCare should ensure that the Director of Information Services promptly makes the necessary changes to the TennCare Management Information System to bring the method of payment into compliance with departmental rules or have the rules amended.

Management's Comment

We concur. TennCare staff will be working with the Director of TennCare to bring payment methods into compliance with departmental rules. Additionally, the Bureau will examine its process for updating policies, procedures, and computer systems to reflect new developments and procedures for testing the claims pricing and payment subsystems.

Finding Number	98-TDH-08
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9705TN5028, 05-9805TN5028
Finding Type	Reportable Condition, Allowable Costs/Cost Principles
Questioned Costs	$9.10

TCMIS processing of Medicare professional cross-over claims still needs improvement

Finding

As noted in the prior audit, covering the period July 1, 1996, through June 30, 1997, there are several control weaknesses in the processing of Medicare professional cross-over claims (claims paid partially by both Medicare and Medicaid). The TennCare Management Information System (TCMIS) used to process these claims has not been modified and updated as needed to ensure claims are paid in compliance with state and federal laws. The amount of expenditures for professional cross-over claims during fiscal year 1998 was $46,437,425.17. Management concurred with the prior finding and stated that policies, procedures, and computer systems would be reviewed in order to make necessary modifications. Also, management stated that the claims pricing and payment manual would be reviewed for any indicated revisions and would be updated to reflect changes in law and grant guidelines. However, TennCare management has failed to take these measures.

- Although professional cross-over claims have been Medicaid-eligible since the late 1980s, these claims are to be denied if the recipients have other insurance (third-party resources). However, TCMIS has not been updated to detect third-party resources on these cross-over claims. Testwork revealed that TCMIS failed to deny two cross-over claims even though the recipients had supplemental insurance information on the system. The questioned costs will be reported in the Tennessee Single Audit Report for 1998 because the error projects to approximately $55,260. The total number of claims paid improperly and the actual total dollar amount paid in error for fiscal year 1998 was not determined.
- Despite the complex nature of the claims processing, bureau staff does not routinely perform manual pricing tests to determine if the system is paying claims properly.
- TennCare's fee-for-service claims pricing manual has not been updated.

Recommendation

The Commissioner should determine why TCMIS has not been updated to detect third-party resources on cross-over claims, and why the Director of the Policy Division has not revised and updated the claims pricing and payment manual to reflect changes in law and grant guidelines. Management and staff should keep abreast of new and changing program requirements and should ensure the bureau's policies, procedures, and computer systems are updated timely to reflect new developments. Also, the Commissioner and the Assistant Commissioner for TennCare should determine why the claims pricing and payment subsystem of TCMIS has not been tested routinely and take immediate action to implement testing.

Management's Comment

We concur. As stated in our response to 98-TDH-07, the Bureau will examine its process for updating policies, procedures, and computer systems for changes necessary to reflect new developments. Procedures will be implemented to assure that routine pricing tests are done to assure that claims are paying properly.

Finding Number	98-TDH-09
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9705TN5028, 05-9805TN5028
Finding Type	Reportable Condition, Allowable Costs/Cost Principles
Questioned Costs	$3,458,205.31

TennCare paid over $6 million in capitation payments on behalf of deceased enrollees

Finding

Because TennCare failed to identify approximately 14,000 deceased enrollees, TennCare paid over $6 million in capitation payments to the managed care organizations (MCOs) and behavioral health organizations (BHOs) on behalf of the deceased enrollees during the fiscal year ended June 30, 1998.

Using computer-assisted auditing techniques, we performed a data match comparing payment data from the Bureau of TennCare to death records from the Office of Vital Records (Vital Records). The results of the data match indicated that TennCare had improperly paid $5,431,878 to the MCOs and $827,185 to the BHOs.

Although management has procedures for identifying and disenrolling deceased recipients, including matching TennCare recipient files electronically with death record updates from Vital Records monthly, the procedures were not entirely effective. The Division of Information Services is responsible for performing all TennCare recipient eligibility data matches. According to the Director of Information Services, it appeared that the problem was caused by one or more of following:

- Only the most recent death record information from Vital Records was used for the data matches. The information did not include comprehensive death record information, or corrections.
- The criteria used by TennCare to detect actual and possible ("suspect") matches was too restrictive. The program written by the auditor, which was less restrictive, detected more deceased enrollees.
- Suspect matches were not followed up adequately.

According to a manager in the Division of Information Services, a recipient is not removed from the program unless TennCare is certain that their information is correct (that the person has died). Despite this concern, however, TennCare does not send letters to recipients who are possible matches, based on the results of TennCare's data matching procedures.

Also, each month TennCare receives doctor visit and medical procedure information ("encounter data") from the MCOs and BHOs. Currently, this data is not being used to detect recipients

- who have not used their TennCare benefits for an extended period of time and, therefore, may have died, moved out of the state, or obtained other insurance, or
- who have been reported as deceased by their providers.

In a related matter, a report prepared by the internal auditors for the period October 1, 1997, through December 31, 1997, indicated that bureau staff were not using system-generated paid claims reports to ensure that Medicaid claims, such as nursing home claims, had not been paid improperly on behalf of deceased recipients.

Management stated that the payments to the MCOs probably can be recovered. It appears, however, that the payments to the BHOs cannot be recovered because their contracts state that they will receive a predetermined, total, annual amount. In addition, it is possible that the contract payments to the two BHOs were not allocated properly. Even if the improperly paid funds can be recovered, the costs to the state in the wasted actions of processing and paying the ineligible payments, and the costs of recovery cannot be recouped. Of the total expenditure, $3,458,205 of federal funds will be a questioned cost on the Schedule of Findings and Questioned Costs in the 1998 Tennessee Single Audit Report.

Recommendation

Under the direction of the Commissioner, TennCare management should determine which capitation payments made on behalf of deceased recipients legally can be recovered and take the necessary steps to recover all such payments made since the inception of TennCare. Management also should consider whether any action is necessary regarding the monthly allocation of funds between the BHOs.

The Commissioner should ensure that the Director of Information Services considers the methodology used in detecting such payments and that the necessary changes are made to prevent future improper payments. The Director of Information Services should ensure that bureau staff effectively use the appropriate paid claims reports to determine if Medicaid claims have been paid improperly on behalf of deceased recipients, and prompt corrective action should be taken if improper payments are detected. Also, management should consider using the encounter data to detect changes in recipient eligibility.

Management's Comment

We concur. During the audit, TennCare staff met with the audit staff to discuss and validate methods used for the data match against the Vital Records files. The audit team shared their reports from the data match with TennCare.

As a result of the meeting with the audit team, Information Services staff met with Vital Records staff to discuss the date of death discrepancies identified by the auditors that existed between our databases. Prior to the meeting with Vital Records, Information Services researched existing data match processes to ensure the error was not occurring with the TennCare Management Information System (TCMIS). The meeting revealed that TennCare was not receiving corrected records. Vital Records agreed to start providing corrected records monthly.

In addition to the death data reported on the Vital Records file, TennCare also receives referrals from various sources (i.e. TennCare Information Line) and receives suspect match reports from the Vital Records match process. TennCare was granted approval to access the State On Line Query (SOLQ) into the Social Security Administration file, which contains date of death information. SOLQ access has provided TennCare with a valuable tool in the research and validation of death data that is not confirmed through the Vital Records validation/match process.

The audit group provided TennCare with a listing of 4,378 enrollees whose Social Security number matched exactly to TCMIS Social Security Number. As a result of the omission of corrected records from the Vital Records file, Information Services staff accessed the Social Security Administration file (SOLQ) to verify the date of death provided by the audit team. The TCMIS was updated for enrollee records validated through SOLQ. According to staff's evaluation, not the auditor's review, SOLQ did not contain death information on 22% of the enrollees listed on the audit report. The audit finding is correct in stating that match criteria used by the auditors was less restrictive than the criteria used by TennCare for date of death matching and subsequent TCMIS updates. TennCare is required to utilize more restrictive match criteria due to existing policy and court ordered requirements before termination of coverage. The percentage of non-matched records that occurred when the audit records were matched against the Social Security Administration database demonstrates why the more restrictive criteria should be used for automatic termination. The Director of TennCare Information Services has initiated discussions with appropriate TennCare Policy and Legal Staff to consider less restrictive data match criteria for the Vital Records matching process.

As a result of the TennCare Information Services manual efforts to react to the audit discovery, MCO capitation payments made from December 1997 through November 1998 for deceased enrollees were recovered in the December 1998 capitation check write representing approximately $5,000,000.

We partially concur with the report prepared by Internal Audit indicating that TennCare staff were not using system generated paid claims reports made on behalf of deceased enrollees. These reports were not being worked timely and are now being worked by Information Services staff. Procedures have been implemented to ensure recoveries based on date of death information occur more timely. Each month after the Vital Records update, reports are produced that identify all claims paid that are beyond the enrollees' death date. The claims identified are voided or adjusted accordingly.

TennCare does load death dates based on data obtained from Medicaid claims, however, eligibility coverage is not closed until validation from Vital Records occurs. MCO capitation payments are recovered when date of death information is loaded to the TennCare database regardless of Vital Records matching.

We do not concur that the capitation payments made to the BHOs identified in this finding cannot be recovered due to contract language. As explained to the auditors, reconciliation of previous monthly capitation payments has not occurred since July 1997 because of changes to the reimbursement methodology. We do concur that it is possible payment allocations to the two BHOs could have been affected. We will perform a review to determine whether the allocations should be adjusted.

Auditor's Comment

Auditors were told by the TennCare Director of Budget and Finance and the Department of Health's Director of the Office of Budget and Finance that capitation payments made to the BHOs could not be recovered from the BHOs.

"Management's Comment" states that MCO capitation payments made from December 1997 through November 1998 had been recovered in response to the audit discovery. However the comment did not address the auditors' recommendation that management investigate whether improper capitation payments had been made on behalf of deceased enrollees since the inception of TennCare, in January 1994. If it is determined that erroneous payments were made, management should pursue recovery of the payments.

Also, management did not respond to the auditors' recommendation that management consider using the encounter data to detect changes in recipient eligibility.

Finding Number	98-TDH-10
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9705TN5028, 05-9805TN5028
Finding Type	Reportable Condition, Allowable Costs/Cost Principles
Questioned Costs	$302,134.32

TennCare failed to identify incarcerated youth and thus improperly used federal funds to pay their health care costs

Finding

As noted in the prior audit, because TennCare failed to identify incarcerated youth enrolled in the program, even though there are procedures to identify incarcerated adults, TennCare improperly paid for the health care costs of youth in the state's developmental centers. Under federal regulations (*Code of Federal Regulations*, Title 42, Section 435, Subsections 1008 and 1009), the state, not the federal government, is responsible for the health care costs of juvenile and adult inmates. Management concurred with the prior finding stating that they would work with the Department of Children's Services (Children's Services) to determine how they will ensure that procedures exist to prevent the billing of services provided to incarcerated youth. Although TennCare's management has met with Children's Services management, it appears that TennCare still has not taken sufficient action to implement effective procedures to prevent payments for incarcerated youth.

Using computer-assisted audit techniques, a search of TennCare's paid claims records revealed that TennCare made payments totaling at least $571,880.03 from July 1, 1997, to June 30, 1998, for juveniles in the youth development centers. Of this amount, $298,519.38 was paid to managed care organizations (MCOs); $107,661.26 was paid to behavioral health organizations (BHOs); and $165,699.39, to Children's Services. In addition, it was noted in the Children's Services audit that another $10,400 was paid on behalf of children in detention centers. A total of $474,618.77 is questioned.

The amount paid to the BHOs will not be questioned because they are paid based on a predetermined budget for mental health services approved by HCFA. Therefore, the total payments to the BHOs does not change regardless of the number of enrollees.

The payments to the MCOs were monthly capitation payments—payments to managed care organizations to cover TennCare enrollees in their plans. Since the bureau was not aware of the ineligible status of the children in the youth development centers, TennCare incorrectly made capitation payments to the MCOs on their behalf.

TennCare contracts with Children's Services to determine the eligibility of children under its care and should notify TennCare when these children are no longer eligible. However, Children's Services does not notify TennCare when previously eligible youth are incarcerated. Since the bureau has no procedures, such as data matching, to check for such an eventuality, it was unaware juvenile inmates were on the TennCare rolls.

All known and estimated errors will be included on the Schedule of Findings and Questioned Costs in the Tennessee Single Audit report for the year ended June 30, 1998.

Recommendation

The Assistant Commissioner for TennCare should ensure the bureau develops and implements the procedures necessary to ensure federal funds are not used to pay for the health care costs of incarcerated juveniles. Management's top priority should be to pay only for eligible recipients. The Commissioner and the Assistant Commissioner for TennCare should ensure that the Director of Information Services designs and implements computer-assisted monitoring techniques to promptly detect ineligible enrollees. Amounts incorrectly paid should be recovered.

Management's Comment

We concur. TennCare staff have met with the Department of Children's Services on this subject and will be utilizing our monitoring agreement with the Department of Finance and Administration to examine internal controls over this area. In addition, we will pursue implementing computer-assisted monitoring techniques for detecting incarcerated youth.

Finding Number	98-TDH-11
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9705TN5028, 05-9805TN5028
Finding Type	Reportable Condition
Questioned Costs	None

The TennCare Management Information System was not updated timely to process Department of Mental Health and Mental Retardation claims

Finding

Claims from the Department of Mental Health and Mental Retardation (DMHMR) for services provided during the 1997 fiscal year (July 1, 1996, through June 30, 1997) were not paid until September 1997 because TennCare management failed to process the system change request to update the procedure codes and the payment rates in the TennCare Management Information System (TCMIS).

DMHMR annually contracts with providers to render services to recipients in the Home and Community Based Services–Mental Retardation (HCBS–MR) Waiver program administered by TennCare. After services are performed, the providers bill DMHMR, which then, under the HCBS–MR waiver, files claims with TennCare to be reimbursed for services paid to the providers.

Testwork revealed that TennCare failed to reimburse DMHMR for services paid to the providers because all of the procedure codes and reimbursement rates were not updated on the TCMIS, as stated in the system change request, until March 1997. Therefore, DMHMR was unable to bill TennCare for reimbursement of approximately $59 million already paid to providers during the 1997 fiscal year, causing DMHMR to use state funds to reimburse providers. Apparently, poor communication between TennCare and DMHMR further delayed processing until the end of the 1998 fiscal year.

Recommendation

The Commissioner and the Assistant Commissioner for TennCare should ensure that the system change requests used to update the TennCare Management Information System are processed timely so as to avoid the unnecessary use of state funds when federal matching funds are available.

Management's Comment

We concur. TennCare will examine the procedures for implementing system change requests. One goal of the reorganization plan is to improve communication between the TennCare Bureau and other departments so situations like this will be less likely to occur.

Finding Number	98-TDH-12
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9705TN5028, 05-9805TN5028
Finding Type	Reportable Condition
Questioned Costs	None

For the fourth straight audit, since July 1, 1994, the Director of Information Services did not provide information necessary to conduct audits of TennCare timely

Finding

During the prior three audits, covering the period July 1, 1994, through June 30, 1997, the Director of Information Services has not always provided the auditors with requested TennCare Management Information System (TCMIS) information timely. The Director also has not demonstrated a full understanding of and concern for the objectives of the audit and what is necessary for achievement of the objectives. Because the TCMIS is central to the function of the TennCare program, it is impossible to audit the TennCare program without obtaining critical information about the system and the data processed by the system. The Director is responsible for managing both the staff of the Division of Information Services and the contractor hired to maintain and operate the system. Therefore, the auditors must submit numerous requests for information to the Director.

As noted in the three prior audits, the auditors experienced significant delays (two months), or were not provided with critical TennCare recipient eligibility information. Because of these and other problems, at the start of this audit the auditors discussed their concerns about audit delays in the area of Information Services with the Commissioner at the field entrance conference. At the Commissioner's request, a planning meeting was held with the Director to communicate the audit needs and address and identify the audit timetable. To help facilitate audit information requests, the Commissioner also assigned the Assistant Commissioner of the Office of Budget and Finance, as the audit liaison. Despite these efforts, the situation did not improve.

Typically, a variety of information-gathering techniques are used during the audit process, including inquiry, observation, and inspection. On occasion unannounced visits are necessary to accurately evaluate actual processes and operational conditions. Because the Director asked that many requests be submitted in writing, and that contact with the employees of the data processing contractor be arranged in advance through their supervisors, at times it was difficult or impossible to employ these standard auditing techniques. This is a concern because the contractor's employees perform critical TennCare functions on a daily basis.

In several instances, information was not provided or was not timely. Often it appeared that the Director's primary objective was to control the flow of information to the auditors rather than provide a free flow of information. For example, the Director refused to provide the auditors with the telephone listing for the data processing contractor; and other information requested in September 1998, had not been received by January 6, 1999. In addition, it took several requests and discussions to obtain an organization chart for the data processing contractor, which is located on-site in the TennCare building.

The auditors encountered communication problems as well. The Director did not take reasonable measures to seek clarification when he was uncertain of the exact information requested in writing. As a result, no information was received. Frequently telephone calls were not returned timely and/or they were returned after business hours. Delays also occurred on several occasions when employees in the Division of Information Services, who appeared apprehensive about answering the auditors' questions, declined to comment and referred the auditors to the Director.

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate. The same section also states, "The comptroller of the treasury shall have the full cooperation of officials of the governmental entity in the performance of such audit or audits."

As discussed in the "Objectives, Methodologies, and Conclusions" section of the report, the audit of the Department of Health is part of the annual audit of the Comprehensive Annual Financial Report (CAFR) and the Tennessee Single Audit (Single Audit). The Single Audit is conducted in accordance with the Federal Single Audit Act, as amended in 1996. The Single Audit Act requires the auditors to determine compliance with rules and regulations, the existence and effectiveness of internal controls, and to report on these matters to the federal government. When information is not received timely, unnecessary delays in audit fieldwork and reporting can occur. Reporting delays can adversely affect management's ability to take prompt corrective action. In addition, unnecessary delays drive up audit costs, which are paid for with state (50%) and federal (50%) funds.

In addition, accountability to top management, the legislature, the federal community, and the public is avoided when information required for the audit is not forthcoming. When access to information is tightly controlled or cannot be obtained, additional concerns about management's integrity and performance of the program are heightened.

Recommendation

The Commissioner should clarify who the Director of Information Services reports to and should ensure that he cooperates fully with the Office of the Comptroller and provides the information necessary to conduct the audit in a timely manner. This cooperation should also extend to other areas of the department.

Management's Comment

We concur in part. There were instances where the requested information was not provided on a timely basis. After discussions with the Director of Information Services, the new TennCare Director does not believe there was a deliberate effort by the Director of Information Services to frustrate the audit. Having worked with and observed the Director of Information Services' efforts, the new TennCare Director believes the untimeliness of data responses were due more to extraordinary demands from numerous sources, e.g. daily operational requirements, HCFA, MCO monitoring, and an antiquated MMIS than to the Director of Information Services' willingness to comply.

The report states the Director of Information Services requested requests be submitted in writing and that intrusion on employees' time be arranged in advance. Again, the antiquated system, extraordinary requirements and time needs necessitate a management, a control of the work effort.

The Bureau is committed to assisting the audit function, and all efforts will be made to provide readily available information immediately and to prioritize the audit team's requests according to other requirements.

As to the Director of Information Services returning phone calls after hours, we are not surprised. The Director of Information Services' workload requires extraordinary hours, much more than many other employees in state government.

The Director of Information Services is aware and has always performed his duties in a manner that indicated his awareness of who his immediate supervisor is. The TennCare Director will work closely with the Director of Information Services along with other Bureau staff to ensure timely response to auditors' requests. We recognize the necessity for periodic audits and we will strive to make the data available to facilitate the audit in a timely manner. We appreciate the auditors' continued sensitivity to the incredible operational requirements of the TennCare Bureau.

Finding Number	98-TDH-13
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9705TN5028, 05-9805TN5028
Finding Type	Reportable Condition
Questioned Costs	None

TennCare has not established a coordinated program for ADP risk analysis and system security review

Finding

As noted in the prior audit, TennCare does not have a coordinated program for ADP (automated data processing) risk analysis and system security review of the TennCare Management Information System (TCMIS). Management concurred with the prior year finding and stated that the Bureau was seeking guidance from the Health Care Financing Administration (HCFA) regarding their expectations for this regulation and would take steps to comply. Although the bureau has relied on the Department of Finance and Administration's Office for Information Resources (OIR) for security of TCMIS and the system operations are being analyzed and reviewed for the Year 2000 project, the Bureau has failed to comply with Federal regulations by not establishing a program for ADP risk analysis and system security review.

According to Office of Management and Budget (OMB) Circular A-133 and the *Code of Federal Regulations*, Title 45, Subtitle A Section 95.621, such an analysis and a review must be performed on all projects under development and on all state operating systems involved in the administration of the Department of Health and Human Services' programs. TCMIS is such an operating system and is one of the largest in the state.

The risk analysis is to ensure that appropriate, cost-effective safeguards are incorporated into the new or existing system and is to be performed "whenever significant system changes occur." The system security review is to be performed biennially and include, at a minimum "an evaluation of physical and data security operating procedures, and personnel practices."

If TennCare is to rely on TCMIS for the proper payment of benefits, a security plan, which includes risk analysis and system security review must be performed for this extensive and complex computer system. OMB Circular A-133 requires the plan to include policies and procedures to address the following:

- Physical security of ADP resources
- Equipment security to protect equipment from theft and unauthorized use
- Software and data security
- Telecommunications security
- Personnel security
- Contingency plans to meet critical processing needs in the event of short- or long-term interruption of service

- Emergency preparedness
- Designation of an agency ADP security manager

Recommendation

The Commissioner and the Assistant Commissioner for TennCare should ensure the Director of Information Services promptly develops and implements procedures for ADP risk analysis and system security review. The Assistant Commissioner should look to staff to take the initiative in analyzing and reviewing these important areas and not accept the excuse that HCFA may not have specific guidelines to justify staff not taking the necessary steps. The Commissioner should monitor the procedures implemented and ensure the appropriate actions have been taken.

Management's Comment

We concur. However, TCMIS has been reviewed by the Health Care Financing Administration (HCFA) since the implementation of TennCare, and this issue was not raised as a concern. We have asked HCFA for guidance regarding their expectations from states regarding this regulation and will take steps to comply with their response. Additionally, TCMIS is included in the Office of Information Resources' disaster recovery plan and security controls.

Finding Number	98-TDH-14
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9705TN5028, 05-9805TN5028
Finding Type	Reportable Condition
Questioned Costs	None

TennCare failed to identify ineligible incarcerated youth resulting in the loss of approximately $55,000 in federal matching funds

Finding

TennCare incorrectly allocated behavioral health organization (BHO) contract payments because they failed to identify ineligible incarcerated youth. As a result, the state lost approximately $55,000 in federal matching funds.

TennCare makes contract payments to BHOs for eligible individuals. The Health Care Financing Administration requires TennCare to allocate these contract payments between basic mental health services and enhanced services. If an individual needs enhanced services, he is classified as Severely and Persistently Mentally Ill (SPMI) (adults) or Seriously Emotionally Disturbed (SED) (children) and a higher fixed rate is allocated to the BHOs. The federal match is only available for the basic services and the enhanced services up to 60 days. After 60 days, the enhanced services must be funded with state dollars.

Because TennCare failed to appropriately identify ineligible incarcerated youth (see 98-TDH-10), some of whom were classified as SPMI/SED over 60 days, there were more SPMI/SED enrollees over 60 days not eligible for the federal match. Using computer–assisted audit techniques, it was determined that TennCare paid 269 of these payments for ineligible enrollees at the enhanced rate of $319.41. Therefore, a total of $85,921.29 was paid with state dollars only. If TennCare had not included these ineligible enrollees, the federal matching funds of approximately $55,000 for the remaining eligible population would not have been lost.

Recommendation

The Commissioner should ensure that the Bureau identifies incarcerated youth in order to allocate contract payments properly and recoups the excess funds paid by the state, if possible. The Commissioner and the Assistant Commissioner for TennCare should ensure the Director of Information Services designs and implements computer-assisted monitoring techniques to promptly detect ineligible enrollees.

Management's Comment

We concur in part. As stated in our response to 98-TDH-10, we are coordinating with the Department of Children's Services to develop better controls over this area. With better controls in place at the Department of Children's Services and monitoring by TennCare, the risk of this occurring again will be reduced.

Finding Number	98-TDH-15
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9705TN5028, 05-9805TN5028
Finding Type	Reportable Condition
Questioned Costs	None

Because of uncollected cost settlements, TennCare has remitted $11.8 million in state dollars to the federal government

Finding

As noted in the past two audits covering July 1, 1995, through June 30, 1997, because TennCare has failed to collect Medicaid cost settlements from providers, state dollars have been used to pay the federal portion of the cost settlements. (A cost settlement due the state can occur if the annual review of a provider's cost report discloses that the cost of services or charges for services were less than the payments the provider received.) The federal grantor, the Health Care Financing Administration (HCFA), requires the state to remit the federal share (approximately two-thirds) within 60 days of settlement, whether or not the state has collected the amounts due from the providers.

TennCare pursues collection of the cost settlement receivables before and, if necessary, after the federal share of the cost settlement receivables has been remitted to HCFA. Management concurred with the prior findings and stated that staff "has aggressively pursued reducing the outstanding cost settlement balances." However, compared to the amount reported in the prior year, little improvement has been made. At June 30, 1998, the cost settlements over 60 days late were $13,971,688.71. Furthermore, in November 1998, they had risen to $17,798,717.60. Approximately two-thirds ($11.8 million) of this amount has been returned to the grantor, using state funds.

According to TennCare's records, two hospitals had the largest overdue cost settlement balances at November 13, 1998—Regional Medical Center at Memphis ($3,924,954.60) and George W. Hubbard Hospital of Meharry College in Nashville ($2,916,487). Management is uncertain whether the Regional Medical Center at Memphis has the resources to pay its cost settlements and indicated that the hospital has questioned various aspects of its settlements.

According to bureau personnel, legal questions about Hubbard Hospital's current operating status have impeded collection. Also, the current audit revealed that Meharry Medical College has asserted that TennCare (Medicaid) owes the school approximately $2.7 million for unreimbursed prior year costs at Hubbard Hospital.

Because of the difficulty collecting cost settlements directly from providers, in cooperation with the Medicare program administered by the federal government, TennCare initiated garnishment of providers' Medicare payments. However, TennCare has refrained from asking Medicare to garnish all of the outstanding cost settlement receivables until the two financial information systems containing provider balances—TennCare Management Information System(TCMIS) and the Medicaid Accounts Receivable Recoupment System—can be reconciled. (This matter is discussed further in 98-TDH-06.)

Although management has delayed requests to Medicare and the financial information from the Recoupment System is questionable, TennCare management has used this information to remit amounts and report quarterly to HCFA.

Management stated that it was also exploring having the Department of Finance and Administration use STARS to withhold other departments' and agencies' payments to providers. Section 9-4-604, *Tennessee Code Annotated*, provides authority for this procedure:

> No person shall draw any money from the public treasury until all debts, dues, and demands owing by such person to the state are first liquidated and paid off. The commissioner of finance and administration shall not issue any warrants upon the treasury in favor of a person in default until all of such person's arrearages to the treasury are audited and paid.

In fiscal year ending June 30, 1998, TennCare had requested that the Department of Finance and Administration withhold payments to only one provider, collecting $6,409.39. Considering the approximately $17.8 million owed, TennCare's failure to pursue this avenue more aggressively is incomprehensible and contrary to statute.

It is in the state's best interest to resolve the cost settlement accounts receivable as quickly as possible through collection or write-off after all other efforts have been exhausted. Using state funds to remit the providers' share to HCFA deprives the state of the use of these funds. If the state determines that some of the accounts are uncollectible and the accounts are written off, the state may, in certain cases, recover what has already been remitted to HCFA.

Recommendation

To recover the state funds that have been remitted to the federal grantor, the Assistant Commissioner and the Fiscal Director for the TennCare Bureau should ensure that all outstanding cost settlements are collected or written off in a timely manner. When accounts are written off, management should take the necessary steps to obtain a refund from the grantor for the amounts remitted using state funds.

Management should take immediate measures to resolve any questions concerning the amounts owed and each provider's ability to pay. If necessary, assistance from the Office of the Attorney General should be obtained. The Fiscal Director should continue to contact the Department of Finance and Administration about withholding additional payments through STARS.

Management's Comment

We concur. However, since the inception of TennCare, the TennCare staff has aggressively pursued reducing the outstanding cost settlement balances through additional billing correspondence, legal assistance, and other available offsets. After following the appropriate procedures, TennCare has written off those accounts determined uncollectible, including when a provider has filed bankruptcy and the court has upheld the bankruptcy. We have referred providers to Medicare when possible and will continue to do so. We are exploring options with the Department of Finance and Administration for alternate collection methods. We continue to reconcile balances and are working with the Director of Information Services to make system modifications to alleviate the reconciliation issues.

Finding Number	98-TDH-16
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9705TN5028, 05-9805TN5028
Finding Type	Reportable Condition
Questioned Costs	None

TennCare did not adequately verify enrollment application information for cross-over and nursing home providers or monitor the enrollment of providers by the Department of Children's Services

Finding

As noted in the previous audit, professional cross-over and nursing home providers were not verified or updated in TennCare's enrollment process nor was the Bureau monitoring the enrollment of providers by the Department of Children's Services (Children's Services). Management concurred with the finding stating that greater verification of eligibility needs to occur for those providers that do not participate in the Medicare program. The bureau also indicated that the availability of licensure information on the Internet should provide for verification of provider eligibility for all future providers. TennCare personnel also agreed to review provider eligibility verification with Children's Services. While management established verification procedures for provider information, these procedures were not implemented timely. Therefore, the Bureau could not assure proper enrollment and adequate verification for all cross-over and nursing home providers.

New enrollment procedures were implemented in May 1998 that established verification procedures for cross-over and nursing home provider information. Cross-over providers are those physicians whose claims are partially paid by both Medicare and Medicaid. For participation in the TennCare/Medicaid program, providers must now submit, along with the appropriate application, a copy of their Tennessee license or a copy of the latest renewal and information on affiliations with medical groups. The Bureau's Provider Enrollment Unit must perform a verification of the application. While these procedures have significantly improved the enrollment process since implementation, a problem still exists because management did not execute these procedures until late in the fiscal year.

According to TennCare personnel, providers that were enrolled in TennCare prior to May 1998 are not updated systematically for current licensure and possible license suspensions, criminal convictions, etc. Any termination information received on the these providers usually comes from Medicare, which TennCare does not automatically receive, and may not arrive in time to stop payments to the provider.

Testwork revealed that 15 of 60 (25%) providers were not accurately enrolled in the TennCare Management Information System (TCMIS). Ten of the 15 providers improperly enrolled did not have a license number recorded on TCMIS, four of the providers had license numbers on TCMIS that did not agree with Health Related Boards, and one provider was not enrolled in TCMIS, although the group to which he belonged was enrolled. Apparently, these providers were enrolled prior to the establishment of the new enrollment procedures.

TennCare has ultimately relied on Medicare for the verification of provider eligibility information for both cross-over and nursing home providers and on Children's Services' providers for children in state custody. Medicare's application process is much more extensive than that of TennCare and, apparently, applications are thoroughly reviewed. TennCare personnel stated that since most providers are already participants of the Medicare program and Medicare's resources for verification are extensive, the bureau's reliance on Medicare for enrollment is sufficient for compliance with rules and regulations.

Additionally, TennCare has not monitored to ensure the service providers used by Children's Services are eligible to participate in the TennCare/Medicaid program. Children's Services contracts with these providers for therapeutic services for the children under its supervision, and ultimately bills TennCare for these services. See 98-TDH-03 for more information about Children's Services' service providers and billings to TennCare.

According to the Rules of the Tennessee Department of Health, section 1200-13-12-.08, "Bureau of TennCare," participation in the TennCare/Medicaid program is limited to providers that "maintain Tennessee licenses and/or any certifications as required by their practice, or licensure by the Tennessee Department of Mental Health and Mental Retardation." The Rules go on to state that participation is limited to providers that "are not under a Federal Drug Enforcement Agency (DEA) restriction of their prescribing and/or dispensing certification." Additionally, Office of Management and Budget (OMB) Circular A-133 requires that the state plan "specify criteria for determination of validity of disbursed payments" and that the state ensure payments "are disbursed only to eligible providers."

Recommendation

The Commissioner, the Assistant Commissioner for TennCare, and the Director of Operations should ensure that enrollment verification procedures are properly followed. Also, management should ensure update procedures for all provider information are established to assure that all providers remain eligible and assign the implementation of such procedures to the TennCare Provider Enrollment staff. The Commissioner and Assistant Commissioner should ensure that Children's Services is monitored to ensure all service providers are eligible to participate in the program. Management should ensure that the information is verified, updated, and maintained by either Children's Services or the TennCare Provider Enrollment staff.

Management's Comment

We concur. We will examine the procedures for enrollment verification and develop remedies for the deficiencies noted. An aggressive approach for verification and reverification is a key element of the Bureau's strategic plan. We have arranged for the Department of Finance and Administration to assist us in monitoring several aspects of the Department of Children's Services and will include provider enrollment in that review.

Finding Number	98-TDH-17
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9705TN5028, 05-9805TN5028
Finding Type	Reportable Condition, Eligibility
Questioned Costs	$630.88

TennCare does not effectively monitor the eligibility of Supplemental Security Income (SSI) recipients

Finding

TennCare does not have an effective method to monitor the eligibility of TennCare/Medicaid recipients who are eligible because they receive Supplemental Security Income (SSI). The Rules for the Tennessee Department of Health, Bureau of TennCare, section 1200-13-12-.02 1(c) state, "the Social Security Administration (SSA) determines eligibility for the Supplemental Security Income (SSI) program. In Tennessee, SSI recipients are automatically eligible for Medicaid. All SSI recipients are therefore TennCare eligibles."

Testwork revealed that of nine SSI recipients, one recipient apparently became ineligible for TennCare and other state/federal benefits in December 1995 when she moved her residence out-of-state. However, the TennCare Bureau took 18 months (until June 1997) to identify this individual, detect ineligibility, and proceed with disenrollment. According to statements from TennCare personnel, the Bureau cannot disenroll an SSI individual and discontinue managed care organization and behavioral health organization capitation payments until adequate information indicates that eligibility is no longer met.

TennCare personnel stated that reports from SSA are manually worked to verify information such as out-of-state addresses. To verify addresses, TennCare personnel compare addresses on TCMIS against the Department of Human Services' and SSA's systems. Written notification from the enrollee is also accepted as verification. Although TennCare did not receive immediate notification of out-of-state residency for the above individual, the manual verification procedures that TennCare performs with the SSA should have provided for earlier detection of the ineligibility of the individual.

Because the individual was not disenrolled from TCMIS timely, TennCare paid excess capitation payments in the amount of $968.29 to a managed care organization and $249.40 to a behavioral health organization. According to Office of Management and Budget (OMB) Circular A-133, payments are only allowed for individuals who are eligible for the TennCare/Medicaid program. These costs will be questioned in the Schedule of Findings and Questioned Costs in the 1998 Tennessee Single Audit Report.

Recommendation

The Commissioner and the Assistant Commissioner for TennCare should ensure the Director of Information Services designs and implements computer-assisted monitoring techniques to promptly detect ineligible enrollees. Once ineligibility is established, management should make timely efforts for proper disenrollment.

Management's Comment

We concur in part.

The enrollee referenced in the audit finding was referred to the TennCare Information Services Section for termination by DHS. DHS had obtained information that the enrollee was no longer residing in Tennessee. During the review period, Information Services relied on DHS' verification of SSI enrollees receiving benefits in another state. TennCare did not have on line access into the Social Security Administration's State On Line Query (SOLQ) that houses SSA data until April 1998. This database is the source for verification of SSI benefits. The Director of TennCare Information Services and his staff worked with the Social Security Administration to obtain inquiry access to the State On line Query System. The SSA has very stringent RACF security procedures that must be adhered to for all SOLQ activities. TennCare received formal authorization from the Social Security Administration in March 1998 for access into SOLQ.

TennCare and DHS have strict rules regarding terminations of SSI enrollees which are stipulated as a result of the "Daniels" Court order decree. The rules allow termination of SSI enrollees only if the State verifies they are deceased or receiving benefits in another state. Access directly into SOLQ has eliminated TennCare's dependency on DHS for verification of benefit information, which now allows us to directly investigate and take termination action as needed. This will enable us to react more timely for disenrollment of SSI enrollees in accordance with TennCare Policy and Procedures. The Information Services Section continues to review system generated reports to identify SSI enrollees with out of state addresses.

Audit finding 98-TDH-09 detected a problem in the identification of deceased enrollees based on matches with Vital Records files. A procedure has been implemented to provide corrected death records each month.

Finding Number	98-TDH-18
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9705TN5028, 05-9805TN5028
Finding Type	Reportable Condition
Questioned Costs	None

TennCare used memorandums of understanding to disburse payments to medical schools

Finding

As noted in the previous audit, TennCare did not use an appropriate type of agreement for graduate medical education (GME) payments. Instead of abiding by the Rules of the Department of Finance and Administration, Chapter 0620-3-3, "Personal Service, Professional Service, and Consultant Service Contracts," and establishing multi-year grant contracts, TennCare entered into memorandums of understanding (MOUs). Management concurred with the prior audit finding and stated that it was not in compliance with contract rules and state laws. They further stated that the current memorandums of understanding would expire in December 1998, and at that time the agreements would continue via state contracts. However, as of January 27, 1999, TennCare had not entered into the required state contracts.

In June 1996, the Health Care Financing Administration (HCFA) approved TennCare's five-year plan for determining and disbursing GME payments to the four medical schools in the state—East Tennessee State University, the University of Tennessee at Memphis, Meharry Medical College, and Vanderbilt University. The approved plan was for payments each fiscal year from July 1, 1995, through June 30, 2000. Subject to the availability of state and federal funding, total annual GME expenditures are expected to range from $48 million for fiscal year June 30, 1998, to $53,566,000 for fiscal year June 30, 2000.

According to information from the Office of Contracts Administration, Department of Finance and Administration, the type of agreement under which TennCare disbursed these funds was not an acceptable mechanism. The appropriate mechanism would have been multi-year grant contracts. These contracts are developed to safeguard the interests of the department and the state, ensure compliance, and effectively communicate the rights, responsibilities, and obligations of all parties.

In addition, the MOUs (and amendments) were not signed by the Comptroller of the Treasury, as required by *Tennessee Code Annotated*, Section 12-4-110 paragraph (a)(1), "Contracts calling for expenditures from appropriations of more than one (1) fiscal year must also be approved by the comptroller of the treasury." These agreements were, however, signed by the Commissioner of Finance and Administration.

Recommendation

The Assistant Commissioner should comply with all state laws and rules for contracts. Each school's memorandum of understanding should be replaced with a multi-year grant contract signed by all parties and approved by the Commissioner of Finance and Administration and the Comptroller of the Treasury. No payments should be made before these contracts are finalized.

Management's Comment

We concur. The Bureau has entered into grant contracts with GME fund recipients effective for the period January 1, 1999. These contracts have been executed and are loaded into the STARS system.

Finding Number	98-TDH-19
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9705TN5028, 05-9805TN5028
Finding Type	Reportable Condition
Questioned Costs	None

TennCare has not monitored the graduate medical schools

Finding

TennCare has not monitored the graduate medical schools to ensure requirements related to graduate medical education (GME) payments are met, nor has TennCare advised the graduate medical schools of the audit requirements of subrecipients. GME payments are made to the state's four medical schools and consist of three components: a hospital pass-through component, a primary care allocation component, and a resident stipend component. The hospital pass-through funds are paid to the medical schools, which are required to allocate the funds to the hospitals designated in the GME plan. Under the primary care allocation, the GME dollars are to follow the residents to their sites of training. The amount of each school's primary care component is determined based on the lists of residents provided by the medical schools. The stipend component is awarded to a resident in family practice, internal medicine, pediatrics, or obstetrics during the years of residency for which the resident agrees to participate and to serve TennCare enrollees in a "Health Resource Shortage Area" of Tennessee. During the year ended June 30, 1998, GME expenditures were approximately $48 million.

TennCare does not monitor the graduate medical schools to ensure the following:

- The hospital pass-through component dollars paid to the hospitals designated in the GME plan are properly allocated.
- The lists of residents used to determine the primary care component are valid.
- The graduate medical schools have taken appropriate action to correct federal compliance audit findings.

Although TennCare relies on the graduate medical schools to comply with the terms of their agreement, the bureau does not monitor the graduate medical schools to ensure requirements are met.

Office of Management and Budget (OMB) Circular A-133 requires the department to monitor subrecipients' activities to provide reasonable assurance that the subrecipients administer federal awards in compliance with federal requirements. OMB Circular A-133 also requires the department to ensure that required audits are performed and that subrecipients take prompt corrective action on any audit findings.

The department cannot determine subrecipients' compliance with applicable laws and regulations if appropriate monitoring procedures are not performed and required audits are not obtained. Furthermore, funds could be used for objectives not associated with the grant and subrecipient errors and irregularities could occur and not be detected.

Recommendation

TennCare should immediately advise the subrecipients of the audit requirements for subrecipients of federal funds. The Assistant Commissioner for TennCare should establish a monitoring program to ensure compliance with grant requirements. All monitoring should be sufficiently documented and deficiencies should be promptly reported to the graduate medical schools. TennCare should also require the schools to submit corrective action plans.

Management's Comment

We concur. The Bureau will advise the subrecipients of the audit requirements for subrecipients of federal funds. The medical schools have been included in the contract monitoring plan submitted to the Department of Finance and Administration in accordance with Policy 22.

Finding Number	98-TDH-20
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9705TN5028, 05-9805TN5028
Finding Type	Reportable Condition
Questioned Costs	None

Policies and procedures for accounts receivable and accrued liabilities need improvement

Finding

TennCare's policies and procedures for accounts receivable and accrued liabilities are not adequate. Because of these inadequacies, numerous deficiencies in TennCare's accounts receivable and accrued liabilities records were noted.

As part of the state's year end financial closing procedures, management determines, and then records in the State of Tennessee Accounting and Reporting System (STARS), the accrued liabilities for the TennCare program. For the fiscal year ended June 30, 1998, the total amount of TennCare's accrued liabilities recorded in STARS was $265,312,552.

Management obtained and recorded estimated accrued liability amounts from the Department of Children's Services (Children's Services), the Department of Mental Health and Mental Retardation (DMHMR), and the Medicaid/TennCare Section of the Comptroller's Office. However, management did not obtain and review sufficient supporting documentation for the amounts recorded, nor did they get assurance from these departments that the liability balances were accurate. With one exception, TennCare management could not provide worksheets or any other support for the amounts recorded.

Our audit of Children's Services determined that the $42.4 million accrued liability for that department could not be supported and most likely was overstated. However, because of deficiencies in Children's Services' accounting records the correct amount of the liability could not be determined.

Because TennCare's Accounting Manager could not provide support for the TennCare-related accrued liabilities for DMHMR, the auditor was told to obtain the information from the Fiscal Director at DMHMR. As a result of the audit testwork, adjustments to the accrued liabilities for DMHMR were proposed. Without a clear delineation of the organizational structure of the Departments of Health and Mental Health and Mental Retardation, management cannot be assured of reliable financial reporting.

Testwork also revealed that Medicaid provider cost settlement receivables and payables were netted improperly. Cost settlement receivables and cost settlement payables were netted by category (e.g., hospitals, long term care facilities). For example, "hospital receivables" were netted with "hospital payables," instead of by individual hospital. In addition, all total net amounts, by category, also were netted together.

Medicaid provider cost settlement receivables were not treated consistently. Only some of the receivables were recorded in STARS—indirectly, when they were netted with cost settlement payables. Management did not record (i.e., include in the net amount) cost settlement receivables accounted for on the Medicaid Accounts Receivable Recoupment System. (The problems with this system are discussed in greater detail in 98-TDH-06.)

Furthermore, testwork revealed that TennCare's management has not developed written policies and procedures for recording accounts receivable in STARS or for monitoring, collecting, and writing off accounts receivable. Management considers many of the receivables uncollectible and, except for some of the cost settlement receivables discussed previously, does not record them in STARS. The types and amounts of receivables are as follows:

- TennCare enrollee premium receivables—The total outstanding balance at November 9, 1998, was $18,878,463.
- Fraud and abuse receivables, which result from fraud and abuse investigations—At June 30, 1998, the total outstanding balance was $3,176,884.
- Drug rebate program receivables that remain from the Medicaid program, prior to TennCare—The total outstanding balance at June 30, 1998, was $2,534,190.
- Provider cost settlements receivables owed by Medicaid providers, such as hospitals and nursing homes—See 98-TDH-15 for more information about these receivables.
- "PA-68" receivables established in the names of recipients to collect payments to providers that should have been paid by recipients—At June 30, 1998, the total outstanding balance was $51,730.

According to management, no effort has been made to collect the drug rebate program receivables since 1995, and no effort is made to collect enrollee premium receivables after a recipient is terminated from TennCare.

Proper accounting policies and procedures ensure that the financial information used for decision-making and state and federal reporting is accurate. In addition, good accounting policies and procedures result in audit resources being used more efficiently and effectively because of the reduced amount of time required to audit the financial records. Comprehensive written policies and procedures help staff carry out their job responsibilities and help ensure that accounting and reporting is consistent, which may result in improved management oversight and program financial performance.

Recommendation

The Commissioner should ensure the Fiscal Director obtains accurate and sufficiently detailed supporting documentation for amounts which will be recorded in STARS. In addition the Fiscal Director should ensure liabilities accrued by his office are carefully prepared and reviewed. This information should be provided to the auditors upon request.

The Fiscal Director also should ensure that receivables and payables (liabilities) are accounted for separately and consistently. Amounts should be netted on an individual provider or account basis only, if deemed necessary. The Fiscal Director should develop and implement written policies and procedures for monitoring, collecting, recording in STARS, and writing off TennCare's accounts receivable.

Management's Comment

We concur. We will begin the process of developing policies and procedures for monitoring, collecting, recording in STARS, and writing-off TennCare's accounts receivable. These policies and procedures will include obtaining and retaining accurate documentation of accrued liabilities.

Finding Number	98-TDH-21
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9705TN5028, 05-9805TN5028
Finding Type	Reportable Condition
Questioned Costs	None

TennCare has failed to follow its own rules and has failed to revise its rules

Finding

As noted in the prior two audits, the Bureau of TennCare has ignored several of the departmental rules it created or has acted before rules were developed. Among the reasons cited for bypassing the rules were that some of the rules were out-of-date and no longer addressed the situation and that adherence to some of the rules was not feasible. Management concurred with the prior two findings and stated that the rules would be reviewed and revised as determined necessary. However, little or no progress has been made.

Tennessee Code Annotated prescribes the method for adopting departmental rules. Except for emergency or public-necessity rules, an agency must publish its proposed rule in the Secretary of State's monthly administrative register and include the time and place of a hearing on the rule. The legality of all proposed rules, including emergency and public-necessity, must be approved by the Attorney General and Reporter. Emergency and public-necessity rules are effective upon filing with the Secretary of State and other rules are effective 75 days after filing.

- Even though the bureau has contracted to make adverse selection payments to those managed care organizations with a disproportionate share of enrollees requiring extensive health services, and has made $170 million in such payments, the bureau has not established rules concerning these types of payments. The contracts, which obligate the state to pay up to $55 million annually, do not specifically describe how the payments will be calculated; they only state that the payments will be made using a formula developed by TennCare and approved by the Health Care Financing Administration.
- The bureau is paying some providers more than is allowed by departmental rules. The method used to calculate outpatient hospitalization payments to providers caring for enrollees who are both TennCare and Medicare recipients sometimes results in payments that exceed limits. (See 98-TDH-07 for more details.)
- The bureau has not revised its rules to include changes in the method it uses to determine payments to the state's medical schools for graduate medical education.
- The rules pertaining to the Home and Community Based Services waiver program have not been revised to reflect changes in the program. For example, TennCare no longer pays provider claims based on a per diem rate.

Generally, rules are used to state a department's position on important matters, provide standard definitions of technical words and phrases, and define regulations and policies that affect parties outside state government. Departmental rules are to be developed in an open forum, using due process, so that the interests of all concerned parties can be considered.

Recommendation

The Assistant Commissioner for TennCare should exhibit a strong commitment to the importance of up-to-date rules and the necessity of complying with rules. TennCare management and staff should comply with the bureau's rules, and the Assistant Commissioner should take appropriate measures, including a system for monitoring relevant program changes, to ensure that the rules are revised to remain current. The Assistant Commissioner should recognize that when rules are out of date, the department has failed to stay abreast of changes and has failed to appropriately tie rules to the operational aspects of programs. The Assistant Commissioner should recognize that when rules are not feasible, the process of developing the rules and ensuring they compliment and facilitate operations has failed. These situations should be avoided when possible, and if they do arise, they should be corrected immediately.

Management's Comment

We concur. During 1997, the Bureau and the Office of General Counsel began an extensive review of the TennCare rules to identify rules that needed to be revised to reflect current policy. From January 1998 until the present, twenty-nine rules have either been adopted or set for hearing including three rules pertaining to home and community based services waivers. We will continue to review the departmental rules for areas that need revision including those areas noted in the finding.

Finding Number	98-TDH-22
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9705TN5028, 05-9805TN5028
Finding Type	Reportable Condition, Allowable Costs/Cost Principles
Questioned Costs	$11,628.00

For nine months TennCare inappropriately reimbursed the Department of Children's Services for employees on administrative leave with pay resulting from disciplinary actions

Finding

TennCare inappropriately reimbursed the Department of Children's Services (Children's Services) for two caseworkers' salaries for nine months while they were on administrative leave with pay resulting from disciplinary actions. Eventually one employee was placed in another position with Children's Services, and the other employee was terminated. A contract between TennCare and Children's Services allows TennCare to reimburse Children's Services for administration of health-related services to TennCare-eligible children served by Children's Services. These administrative services include caseworkers who will coordinate and provide for access to health-related services to TennCare-eligible children, including emergency assistance determinations.

In accordance with an administrative cost allocation plan approved by Children's Services and TennCare, Children's Services bills case management salaries to the Bureau of TennCare and these costs are charged to the TennCare program.

When Children's Services removed two caseworkers from normal duties and placed them on administrative leave with pay, they did not notify the Bureau of TennCare of the situation. In addition, Children's Services failed to promptly resolve the situation and return the employees to normal duties or terminate them. As a result, TennCare reimbursed Children's Services for $18,072 of salaries for these two employees (approximately 9 months each). While on administrative leave with pay, the caseworkers were not providing any administrative services to the Bureau of TennCare or any other services to the state and, therefore, their salaries were inappropriately charged to the federal program. Of the total expenditure, $11,628 of federal funds will be a questioned cost on the Schedule of Findings and Questioned Costs in the 1998 Tennessee Single Audit Report.

Because Children's Services did not act promptly to resolve the disciplinary issues, Children's Services and the Bureau of TennCare misused federal and state funds.

Recommendation

The Assistant Commissioner for TennCare should work with the Commissioner of the Department of Children's Services to ensure that staff bill only appropriate charges to the Bureau of TennCare. The Assistant Commissioner should require the Department of Children's Services to notify the Bureau when employees whose salaries are charged to TennCare are placed on administrative leave with pay. TennCare should monitor these situations to ensure they are resolved timely by the Department of Children's Services.

Management's Comment

We concur. The Department of Health has entered into an agreement with the Department of Finance and Administration for monitoring of TennCare related activities at the Department of Children's Services. The monitoring will include an examination of internal controls over billings to the TennCare program.

Finding Number	98-TDH-23
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9705TN5028, 05-9805TN5028
Finding Type	Reportable Condition
Questioned Costs	None

TennCare should seek clarification of grant requirements

Finding

As noted in the prior two audits, modifications to TennCare's grant requirements are often necessary because TennCare is a relatively new approach to Medicaid for both the state and the Health Care Financing Administration (HCFA). However, the intent of some requirements becomes unclear with the changes. The payment rates for certain psychiatric services is one such case. Although, management concurred with the prior finding and stated they would contact the appropriate HCFA representative to obtain clarification, no evidence of this contact has been provided.

When TennCare began, mental health services were not immediately moved into a managed care setting as were other health services. As a result, the state requested permission from HCFA to continue to pay for some mental health services on a fee-for-service basis. The November 18, 1994, approval letter from HCFA states:

> For both the Children's Plan [Department of Children's Services] and the SPMI [severely and persistently mentally ill], retroactive payments to January 1, 1994, will be permitted on a fee-for-service (FFS) basis, subject to the State's processing these claims through the State Medicaid Management Information System that was in place <u>prior to January 1, 1994, at the previously existing rates</u>....(emphasis added)

Without seeking guidance from HCFA, TennCare interpreted this waiver as allowing the state to continue to adjust for inflation SPMI and the Department of Children's Services (Children's Services) rates for psychiatric hospitals and community mental health centers as it had done under Medicaid. During fiscal year 1995, TennCare also adjusted these rates to cover additional costs, such as capitalization of fixed assets and property taxes, and enhanced the rates by a Medicaid "disproportionate share factor" to help cover hospital charity costs. Prior to TennCare, these costs and the disproportionate share factor were not a part of the rates.

On July 1, 1996, TennCare implemented the TennCare Partners Program to provide mental health services in a managed care setting and discontinued fee-for-service payments for SPMI. Children's Services, however, continues to be paid with adjusted rates on a fee-for-service basis.

Although management agreed that all policies and programs and resulting payments should comply with grant requirements, management has not obtained documentation from HCFA regarding its position on the adjusted rates. During audit fieldwork, the Fiscal Director of TennCare stated that HCFA had verbally approved the adjusted rates. However, the Fiscal Director did not request formal written approval until December 1998, two years after the auditor's request. As of February 10, 1999, TennCare has not received the approval letter from HCFA.

Recommendation

The Assistant Commissioner for TennCare should immediately follow up with HCFA to obtain formal written approval for the adjusted rates. The Assistant Commissioner should also ensure that all policies or programs and resulting payments comply with grant requirements. If these requirements are unclear or if a substantial change is made, TennCare should seek guidance from the grantor before implementing the change.

Management's Comment

We concur. TennCare has contacted HCFA officials on this matter and is awaiting a response.

Finding Number	98-TDH-24
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9705TN5028, 05-9805TN5028
Finding Type	Reportable Condition
Questioned Costs	None

Since fiscal year 1994, TennCare has not returned Medicaid refunds to the federal grantor promptly

Finding

For the past five years, from July 1, 1993, through June 30, 1998, TennCare has not promptly used the amounts recovered from third parties to reduce federal drawdowns. Management concurred with the prior audit findings and stated they would, "continue to work with the Department of Finance and Administration to further improve the timely processing of refund transactions that affect the federal draw of funds." In addition, management of the Department of Finance and Administration concurred and has taken measures "to ensure that HCFA remittances are properly identified and prompt approval and processing occurs." However, the timeliness of remittances to HCFA has not improved. Occasionally, refunds were delayed up to four weeks before remittance to HCFA. Based on reports provided by the department, refunds totaling $12,527,527.97 were deposited in fiscal year 1998. Our review of $5,193,005.23 of refund deposits disclosed that $3,309,288.08 was not remitted to HCFA in a timely manner.

The timeliness of remittances to HCFA involves two components: TennCare's prompt keying of information into STARS and the Division of Accounts' (within the Department of Finance and Administration) prompt approval to process the transactions.

The Cash Management Improvement Act Agreement holds the state liable for interest on refunds from the date the refund is credited to a state account until the date the refund is subtracted from drawdowns. Both TennCare and Department of Finance and Administration personnel indicated that the interest is properly remitted.

Recommendation

Both TennCare and the Department of Finance and Administration should coordinate efforts to determine why remittances are not timely and take immediate action to correct the delays. The Assistant Commissioner for TennCare should ensure refund transactions are promptly entered into STARS and forwarded to the Department of Finance and Administration. TennCare staff should continue to communicate the priority of processing these refund transactions and monitor them until drawdowns are reduced.

Management's Comments

Department of Health, Bureau of TennCare:

We do not concur. As stated in Finance and Administration Policy 20, all grant related revenue and expenditure transactions are coded to utilize the STARS grant module for draw-down purposes.

TennCare has taken steps to identify transactions that are related to the Cash Management Agreement in order to aid the Department of Finance and Administration in prioritizing processing. It should be noted that the Cash Management Agreement's interest assessment calculations are designed to keep transactions between the federal government and the state on an interest neutral basis. Any interest assessed is to compensate the federal government for interest the state earned on any funds not remitted to HCFA timely and therefore, interest that is assessed represents funds the state would not have had if the funds had been remitted timely.

Department of Finance and Administration:

We do not concur. TennCare is complying with the terms of the Treasury State Agreement using the Post Issuance Funding Technique. TennCare is also complying with Policy 20. In the event that transaction volume is high or processing is slow due to staff turnover, processes are in place to remit any interest liability owed to the federal government if transactions are not processed timely. The interest liability that was incurred was immaterial considering the size of the TennCare program.

Auditor's Comment

It is the auditors' understanding that Medicaid refunds should be returned promptly to the federal grantor by reducing federal drawdowns. Testwork revealed that 28 of 44 refunds (64%) were not keyed into STARS within one day by the TennCare Bureau and 42 of 48 of the refunds (88%) were not processed by the Department of Finance and Administration within four days of receipt from the Bureau.

Finding Number	98-TDH-25
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9605TN5028, 05-9705TN5028, 05-9805TN5028
Finding Type	Reportable Condition
Questioned Costs	None

Controls over manual checks have been weak since 1994

Finding

As noted in the prior four years, July 1, 1994, through June 30, 1998, and despite management's concurrence with the findings, the TennCare Bureau needs to continue to improve controls over manually prepared checks. In fiscal year 1998, these checks totaled approximately $315 million.

The fiscal agent assigned responsibility for preparing these checks did not sufficiently segregate manual check-preparation duties. During the audit period, one employee had access to both the manual check stock and the signature stamp and could have controlled the process from beginning to end and issued a check for unauthorized purposes.

The only compensating control used was a reconciliation of checks issued and cleared each month. This reconciliation involves records from the Department of the Treasury (Treasury), the Department of Finance and Administration's Division of Accounts, and TennCare. This reconciliation ensures that TennCare's and Treasury's records of checks issued and cleared correspond to STARS. However, the reconciliations were not completed in a timely manner. As of June 1998, reconciliations had been performed only through April 1998.

Effective internal controls require that no one person have the ability to control the entire check-issuance process and that reconciliations of accounting records to bank activity be timely.

Recommendation

The Assistant Commissioner for TennCare should ensure duties are adequately segregated. In addition, each month, the Department of the Treasury, the Division of Accounts, and TennCare should reconcile checks issued and cleared with Account Reconciliation Package (ARP), STARS, and TCMIS records.

Management's Comment

We concur. We will continue to improve controls over manual checks and the timeliness of the reconciliation of checks issued with ARP, STARS, and TCMIS.

Finding Number	98-TDH-01
CFDA Number	93.959
Program Name	Substance Abuse Prevention and Treatment Block Grant
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	N/A
Finding Type	Reportable Condition
Questioned Costs	None

Monitoring of subgrantees is not adequate

Finding

As noted in the six prior audits, subgrantees of the Department of Health are not adequately monitored. Management concurred with the prior findings, and although improvements have been made, problems continue.

- The Bureau of Alcohol and Drug Abuse Services does not conduct on-site fiscal monitoring reviews of subgrantees and does not have uniform written procedures for fiscal monitoring.
- The files of 80 subrecipients of grants administered by the Department of Health were reviewed for evidence of compliance and fiscal monitoring. The fiscal activities of 32 subrecipients had not been monitored. The programmatic goals and objectives of five subrecipients were not monitored.

Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires the department to "monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved."

Monitoring also involves obtaining and reviewing subrecipient audit reports, which are prepared by independent CPA firms. Occasionally, these reports contain questioned costs and indicate amounts due to the state. The department did not meet federal requirements in the following instances:

- Three of the six audit reports reviewed contained questioned costs that were not resolved within six months of receipt of the reports. This resolution process was completed 23 to 122 days after the six-month period ended.
- The department's review of the audit reports did not include following up other reported audit exceptions such as internal control weaknesses.
- Funds were not withheld consistently as follow-up action for subrecipients' not obtaining an audit in accordance with OMB Circular A-133.

Circular A-133 states that it is the recipient's (Department of Health's) responsibility to "follow up and take corrective action on audit findings." Furthermore, it states that "in cases of continued inability or unwillingness to have an audit conducted in accordance with this part, ... pass-through agencies [Department of Health] shall take appropriate action using sanctions such as... withholding a percentage of Federal awards until the audit is completed satisfactorily" or "suspending Federal awards until the audit is conducted."

In addition, the department does not ensure subrecipient audit reports are obtained within six months of the subrecipient's fiscal year-end. The Department of Health's standard contract states:

> The audit contract between the Grantee and the licensed independent public accountant shall be on a contract form prescribed by the Tennessee Comptroller of the Treasury.

The Contract to Audit Accounts states:

> The auditor's report shall be filed prior to ________, but in no case, shall be filed later than six (6) months following the fiscal period to be audited, without prior written explanation to the Comptroller of the Treasury, State of Tennessee and the auditee. The auditor shall file one (1) copy of said report with the Comptroller of the Treasury, State of Tennessee, and with the appropriate officials of the granting agencies . . ..

Thirty-seven of 40 audit reports were not received within six months of the end of the subgrantee's fiscal year as required in the department's standard contract with subgrantees. Reports were received from 19 to 1,048 days after the six-month period. Also, 55 audit reports due as far back as 1994 had not been received as of June 30, 1998.

The department cannot determine compliance with applicable laws and regulations if it does not monitor subrecipients. Additionally, funds could be used for objectives not associated with the grant or contract.

Recommendation

The Commissioner and related bureau directors should establish policies and procedures for annual fiscal monitoring of all subrecipients. Staff should sufficiently document all monitoring and promptly report deficiencies to subrecipients. Significant deficiencies should be reported to the department's Office of Audit and Investigation and to the Comptroller of the Treasury. Recommendations and deficiencies previously noted should be followed up, and this process should also be documented.

All audit exceptions should be followed up and resolved within six months of the receipt of the subrecipients' audit reports. Also, procedures should be developed to ensure subrecipient audit reports are received no later than six months following the subrecipient's year-end. The Commissioner should consider withholding funding from subrecipients when required audits are not conducted or when audit reports are not submitted to the department timely.

Management's Comment

We concur. The Department is in the process of developing a policies and procedures manual for Fiscal Monitoring which includes the annual independent audit and how to handle questioned and disallowed costs and audit findings. Further, the Department is working with the Department of Finance and Administration in the overall contract monitoring program that is being implemented by the Department of Finance and Administration and has submitted a plan for compliance with the program designed by Finance and Administration.

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 1998

U.S. Department of Agriculture

Direct Programs

CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)		Disbursements/Issues
10.001	University of Tennessee	Agricultural Research-Basic and Applied Research		$ 2,038,704.55
10.025	Agriculture	Plant and Animal Disease, Pest Control, and Animal Care		302,240.42
10.064	Agriculture	Forestry Incentives Program		9,000.00
10.153	Agriculture	Market News		18,000.00
10.163	Agriculture	Market Protection and Promotion		2,733.56
10.206	University of Tennessee	Grants for Agricultural Research-Competitive Research Grants		11,418.75
10.210	East Tennessee State University	Food and Agricultural Sciences National Needs Graduate Fellowship		3,612.27
10.214	Tennessee State University	Morrill-Nelson Funds for Food and Agricultural Higher Education		574.27
10.217	University of Tennessee	Higher Education Challenge Grants		13,834.69
10.218	Tennessee State University	Buildings and Facilities Program	$ 374,990.94	
10.218	University of Tennessee	Buildings and Facilities Program	2,691,336.73	3,066,327.67
10.220	Tennessee State University	Higher Education Multicultural Scholars Program	375.00	
10.220	University of Tennessee	Higher Education Multicultural Scholars Program	19,007.39	19,382.39
10.224	University of Tennessee	Fund for Rural America-Research, Education, and Extension Activities		12,591.67
10.250	University of Tennessee	Agricultural and Rural Economic Research		110,222.28
10.443	Tennessee State University	Small Farmer Outreach Training and Technical Assistance Program		193,973.27
10.500	Tennessee State University	Cooperative Extension Service	1,878,715.74	
10.500	University of Tennessee	Cooperative Extension Service	9,690,608.40	11,569,324.14
10.550	Agriculture	Food Distribution	34,073.00	
10.550	Education	Food Distribution	33,367.32	67,440.32
10.557	Health	Special Supplemental Nutrition Program for Women, Infants and Children		75,185,890.07
10.558	Human Services	Child and Adult Care Food Program		28,586,073.49
10.560	Agriculture	State Administrative Expenses for Child Nutrition	151,712.07	
10.560	Education	State Administrative Expenses for Child Nutrition	1,047,999.49	1,199,711.56
10.564	Education	Nutrition Education and Training Program	66,316.51	
10.564	Human Services	Nutrition Education and Training Program	4,704.47	71,020.98
10.565	Health	Commodity Supplemental Food Program		4,110,310.57
10.570	Commission on Aging	Nutrition Program for the Elderly (Commodities)		1,786,491.00
10.652	Agriculture	Forestry Research	48,322.76	
10.652	University of Tennessee	Forestry Research	16,200.54	64,523.30
10.664	Agriculture	Cooperative Forestry Assistance	1,315,150.00	
10.664	Tennessee State University	Cooperative Forestry Assistance	31.75	1,315,181.75
10.665	Finance and Administration	Schools and Roads-Grants to States		440,144.51
10.902	University of Tennessee	Soil and Water Conservation		529.56
10.950	Agriculture	Agricultural Statistics Reports		31,933.97
10.961	Tennessee State University	International Agriculture Research Program		10,689.23
NA	Tennessee State University	USDA 1890 National Scholars Program		963.52
NA	Treasury	Rural Economic and Community Development		21,579.58
Total U.S. Department of Agriculture				$ 130,264,423.34

U.S. Department of Commerce

Direct Programs

CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)		Disbursements/Issues
11.300	Tennessee State University	Economic Development-Grants for Public Work and Infrastructure		$ 85,359.57
11.550	University of Tennessee	Public Telecommunications Facilities-Planning and Construction		5,230.03

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 1998

CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
11.552	University of Tennessee	Telecommunications and Information Infrastructure Assistance Program		4,205.45
11.609	University of Tennessee	Measurement and Engineering Research and Standards		236,610.55
Total U.S. Department of Commerce				$ 331,405.60

U.S Department of Defense

Direct Programs

CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
12.002	East Tennessee State University	Procurement Technical Assistance for Business Firms	$ 66,872.99	
12.002	University of Tennessee	Procurement Technical Assistance for Business Firms	235,330.01	$ 302,203.00
12.112	Finance and Administration	Payments to States in Lieu of Real Estate Taxes		330,360.68
12.113	Environment and Conservation	State Memorandum of Agreement Program for the Reimbursement of Technical Services		201,101.55
12.400	Military	Military Construction, National Guard		6,942,866.68
12.401	Military	National Guard Military Operation and Maintenance (O&M) Projects		13,033,292.69
12.800	University of Tennessee	Air Force Defense Research Sciences Program		105,705.84
12.901	East Tennessee State University	Mathematical Sciences Grants Program		5,000.00
NA	Austin Peay State University	Air War College		7,494.31
NA	Dyersburg State Community College	Least Term Study		13,707.75
NA	Education	Troops to Teachers		42,096.87
NA	Tennessee State University	MSRC Programming Environment and Training		96,858.37
NA	Tennessee State University	AFROTC-Postage		1,232.64
NA	Tennessee State University	AFROTC		7,996.34
NA	University of Memphis	National Science Center-Math and Science Camps		3,985.25
NA	University of Tennessee	U.S. Army ROTC Scholarships		18,313.00
Total U.S. Department of Defense				$ 21,112,214.97

U.S. Department of Housing and Urban Development

Direct Programs

CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
14.228	Economic and Community Development	Community Development Block Grants/State's Program		$ 23,351,316.61
14.231	Human Services	Emergency Shelter Grants Program		1,058,676.86
14.235	Mental Health/Mental Retardation	Supportive Housing Program		39,423.00
14.236	Human Services	Supplemental Assistance for Facilities to Assist the Homeless		250,891.93
14.239	Tennessee Housing Development Agency	HOME Investment Partnerships Program		15,166,547.09
14.241	Health	Housing Opportunities for Persons With AIDS		724,452.91
14.243	State Technical Institute at Memphis	Opportunities for Youth-Youthbuild Program		5,702.19
14.400	Human Rights Commission	Equal Opportunity in Housing		251,235.00
14.511	University of Tennessee	Community Outreach Partnership Center Program		53,567.30
14.512	University of Memphis	Community Development Work-Study Program	$ 42,676.00	
14.512	University of Tennessee	Community Development Work-Study Program	54,496.59	97,172.59
NA	East Tennessee State University	Housing and Urban Development Interest Subsidies		45,110.00
NA	East Tennessee State University	Housing and Urban Development Interest Subsidies		49,526.00
NA	Tennessee Technological University	Interest Subsidies		34,586.00
NA	University of Memphis	Memphis Metro Study: GIS Modeling and Mapping		43,379.89
NA	University of Memphis	College Housing Debt Service Grant Program		13,864.00
NA	University of Tennessee	HUD CORE		115,036.02
NA	University of Tennessee	Sutherland Village Apartments		127,553.00
Total U.S. Department of Housing and Urban Development				$ 41,428,040.39

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 1998

CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
		U.S. Department of the Interior		
Direct Programs				
15.252	Environment and Conservation	Abandoned Mine Land Reclamation (AMLR) Program		$ 525,670.31
15.612	Environment and Conservation	Rare Plant Listing		72,206.55
15.615	Tennessee Wildlife Resources Agency	Cooperative Endangered Species Conservation Fund		112,165.00
15.808	Environment and Conservation	U.S. Geological Survey-Research and Data Acquisition	$ 17,745.81	
15.808	University of Tennessee	U.S. Geological Survey-Research and Data Acquisition	5,000.00	22,745.81
15.904	Environment and Conservation	Historic Preservation Fund Grants-In-Aid		650,913.42
15.916	Environment and Conservation	Outdoor Recreation-Acquisition, Development and Planning		312,615.38
15.919	University of Tennessee	Urban Park and Recreation Recovery Program		7,550.56
NA	Tennessee Wildlife Resources Agency	North American Wetlands Conservation Fund	173,125.00	
NA	Tennessee Wildlife Resources Agency	North American Wetlands Conservation Fund	360,000.00	533,125.00
NA	University of Tennessee	NTL FISH & WILDL 96-093-053 98		7,654.06
Total U.S. Department of the Interior				$ 2,244,646.09
		U.S. Department of Justice		
Direct Programs				
16.540	Commission on Children and Youth	Juvenile Justice and Delinquency Prevention-Allocation to States		$ 1,644,111.24
16.554	Finance and Administration	National Criminal History Improvement Program (NCHIP)		505,799.17
16.575	Human Services	Crime Victim Assistance		3,786,480.23
16.576	Treasury	Crime Victim Compensation		1,605,000.00
16.579	Finance and Administration	Byrne Formula Grant Program	$ 8,923,404.62	
16.579	Tennessee Bureau of Investigation	Byrne Formula Grant Program	2,965,960.54	11,889,365.16
16.588	Finance and Administration	Violence Against Women Formula Grants		2,475,888.48
16.592	Finance and Administration	Local Law Enforcement Block Grants Program		150,523.82
16.593	Finance and Administration	Residential Substance Abuse Treatment for State Prisoners		199,445.93
16.710	Austin Peay State University	Public Safety Partnership and Community Policing Grants	21,255.96	
16.710	East Tennessee State University	Public Safety Partnership and Community Policing Grants	31,287.80	
16.710	Safety	Public Safety Partnership and Community Policing Grants	31,161.17	83,704.93
NA	Tennessee Bureau of Investigation	Governor's Task Force on Marijuana Eradication	202,292.90	
NA	Tennessee Bureau of Investigation	Governor's Task Force on Marijuana Eradication	490,094.70	692,387.60
NA	University of Memphis	Leadership Institute in Judicial Education	79,633.93	
NA	University of Memphis	Leadership Institute in Judicial Education	113,779.94	193,413.87
NA	University of Memphis	Memphis Metro Study: Planning and Environmental Analysis		2,500.00
Subtotal Direct Programs				$ 23,228,620.43
Passed Through National Association for Women Judges				
16.588	University of Memphis	Violence Against Women Formula Grants (NA)		$ 129,864.38
Passed Through Shelby County Government				
16.592	University of Memphis	Local Law Enforcement Block Grants Program (CA982266)		$ 34,878.39
Passed Through Knoxville City Government				
16.710	University of Tennessee	Public Safety Partnership and Community Policing Grants (B13996396)		$ 487,822.67
Subtotal Pass-Through Programs				$ 652,565.44
Total U.S. Department of Justice				$ 23,881,185.87

State of Tennessee
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For the Year Ended June 30, 1998

CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
		U.S. Department of Labor		
Direct Programs				
17.002	Employment Security	Labor Force Statistics		$ 939,868.60
17.005	Labor	Compensation and Working Conditions Data		83,283.26
17.203	Employment Security	Labor Certification for Alien Workers		153,949.31
17.225	Employment Security	Unemployment Insurance		42,915,124.35
17.235	Commission on Aging	Senior Community Service Employment Program		1,860,420.14
17.245	Employment Security	Trade Adjustment Assistance-Workers		14,023,836.36
17.249	Education	Employment Services and Job Training-Pilot and Demonstration Programs		38,810.10
17.253	Human Services	Welfare-to-Work Grants to State and Localities		158,024.63
17.503	Labor	Occupational Safety and Health-State Program		2,051,162.43
17.504	Labor	Consultation Agreements		637,378.86
17.600	Labor	Mine Health and Safety Grants		88,845.74
NA	Labor	National Occupational Information Coordinating Committee		127,634.65
Total U.S. Department of Labor				$ 63,078,338.43
		U.S. Department of Transportation		
Direct Programs				
20.005	Tennessee Wildlife Resources Agency	Boating Safety Financial Assistance		$ 804,004.00
20.106	Transportation	Airport Improvement Program		6,652,470.09
20.205	Tennessee State University	Highway Planning and Construction	$ 25,000.00	
20.205	Transportation	Highway Planning and Construction	481,439,593.17	
20.205	University of Tennessee	Highway Planning and Construction	31,304.71	481,495,897.88
20.215	Tennessee State University	Highway Training and Education		26,274.78
20.218	Revenue	Motor Carrier Safety Assistance Program	132,722.61	
20.218	Safety	Motor Carrier Safety Assistance Program	1,984,480.47	2,117,203.08
20.219	Environment and Conservation	National Recreational Trails Funding Program		131,161.39
20.308	Transportation	Local Rail Freight Assistance		147,169.79
20.505	Transportation	Federal Transit Technical Studies Grants		717,436.72
20.509	Transportation	Public Transportation for Nonurbanized Areas		10,461,079.61
20.700	Tennessee Regulatory Authority	Pipeline Safety		213,753.46
20.703	Military	Interagency Hazardous Materials Public Sector Training and Planning Grants		101,484.30
Total U.S. Department of Transportation				$ 502,867,935.10
		Appalachian Regional Commission		
Direct Programs				
23.001	East Tennessee State University	Appalachian Regional Development	$ 7,564.00	
23.001	Tennessee State University	Appalachian Regional Development	490,000.00	
23.001	University of Tennessee	Appalachian Regional Development	318,980.92	$ 816,544.92
23.011	Economic and Community Development	Appalachian State Research, Technical Assistance, and Demonstration Projects		163,769.38
Total Appalachian Regional Commission				$ 980,314.30
		Office of Personnel Management		
Direct Programs				
27.001	State Technical Institute at Memphis	Federal Civil Service Employment		$ 37,419.73
Total Office of Personnel Management				$ 37,419.73

State of Tennessee
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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
		Equal Employment Opportunity Commission		
Direct Programs				
30.001	Human Rights Commission	Employment Discriminatrion-Title VII of the Civil Rights Act of 1964		$ 349,356.00
Total Equal Employment Opportunity Commission				$ 349,356.00
		General Services Administration		
Direct Programs				
39.003	General Services	Donation of Federal Surplus Personal Property		$ 8,317,048.00
Total General Services Administration				$ 8,317,048.00
		National Aeronautics and Space Administration		
Direct Programs				
43.001	Austin Peay State University	Aerospace Education Services Program		$ 26,220.55
NA	East Tennessee State University	Marshall Space Flight Center	$ 33,385.40	
NA	East Tennessee State University	Marshall Space Flight Center	160,666.74	194,052.14
NA	Tennessee State University	Undergraduate Student Awards for Research		51,997.85
NA	University of Tennessee	NASA NAS8-97100 TASK H-284350		27,640.77
NA	University of Tennessee	NASA NAG5-4541 METEORITE-MCSWN		113,589.54
NA	University of Tennessee	NASA PO#S-10025-G SMITH		1,456.73
Total National Aeronautics and Space Administration				$ 414,957.58
		National Foundation on the Arts and Humanities		
Direct Programs				
45.007	Arts Commission	Promotion of the Arts-State and Regional		$ 53,300.00
45.130	University of Tennessee	Promotion of the Humanities-Challenge Grants		221.21
45.149	University of Tennessee	Promotion of the Humanities-Division of Preservation and Access		115,935.29
45.161	University of Memphis	Promotion of the Humanities-Research		17,421.60
Subtotal Direct Programs				$ 186,878.10
Passed Through Southern Humanities Media Fund				
45.129	University of Memphis	Promotion of the Humanities-Federal/State Partnership (SM97-4)		$ 5,204.27
Passed Through Arkansas Humanities Council				
45.129	University of Memphis	Promotion of the Humanities-Federal/State Partnership (AHC-97-004)		$ 3,448.77
Subtotal Pass-Through Programs				$ 8,653.04
Total National Foundation on the Arts and Humanities				$ 195,531.14
		National Science Foundation		
Direct Programs				
47.041	State Technical Institute at Memphis	Engineering Grants	$ 106,594.67	
47.041	University of Tennessee	Engineering Grants	72,842.63	$ 179,437.30

State of Tennessee
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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
47.049	Austin Peay State University	Mathematical and Physical Sciences	17,540.10	
47.049	Columbia State Community College	Mathematical and Physical Sciences	3,934.13	
47.049	University of Tennessee	Mathematical and Physical Sciences	11,716.25	33,190.48
47.050	Roane State Community College	Geosciences	15,980.26	
47.050	University of Memphis	Geosciences	90,432.94	
47.050	University of Tennessee	Geosciences	11,598.47	118,011.67
47.070	University of Tennessee	Computer and Information Science and Engineering		1,562.07
47.074	University of Tennessee	Biological Sciences		50,129.22
47.075	University of Tennessee	Social, Behavioral, and Economic Sciences		29,436.61
47.076	Nashville State Technical Institute	Education and Human Resources	231,196.51	
47.076	Northeast State Technical Community College	Education and Human Resources	5,830.43	
47.076	Pellissippi State Technical Community College	Education and Human Resources	8,097.50	
47.076	University of Memphis	Education and Human Resources	31,456.24	
47.076	University of Tennessee	Education and Human Resources	128,256.91	404,837.59
Subtotal Direct Programs				$ 816,604.94
Passed Through Lemoyne-Owen College				
47.049	University of Memphis	Mathematical and Physical Sciences (HRD-9553315)		$ 92,545.24
Passed Through Lockheed Martin Energy Systems				
47.050	Roane State Community College	Geosciences (49V-SV306)	$ 10,415.89	
47.050	Roane State Community College	Geosciences (SSY-DDX49C)	36,957.02	
47.050	Roane State Community College	Geosciences (19Y-AMA11V)	31,500.74	$ 78,873.65
Passed Through Bechtel Jacobs				
47.050	Roane State Community College	Geosciences (19K-MCL67V)		$ 857.84
Passed Through Kentucky Science and Technology Council				
47.076	University of Tennessee	Education and Human Resources (B01991380)	$ 27,554.47	
47.076	University of Tennessee	Education and Human Resources (B0199702)	134,696.57	
47.076	Walters State Community College	Education and Human Resources (KSTC49-9554465-95-07)	381.10	$ 162,632.14
Subtotal Total Pass-Through Programs				$ 334,908.87
Total National Science Foundation				$ 1,151,513.81

Small Business Administration

CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
Direct Programs				
59.005	Austin Peay State University	Business Development Assistance to Small Business	$ 3,232.00	
59.005	East Tennessee State University	Business Development Assistance to Small Business	905.06	
59.005	University of Tennessee	Business Development Assistance to Small Business	(869.19)	$ 3,267.87
59.037	University of Memphis	Small Business Development Center		1,390,560.65
Total Small Business Administration				$ 1,393,828.52

State of Tennessee
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Tennessee Valley Authority

CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
62.004	Pellissippi State Technical Community College	Tennessee Valley Region-Economic Development	$ 65,833.29	
62.004	Tennessee State University	Tennessee Valley Region-Economic Development	1,241.06	$ 67,074.35
NA	Northeast Community Services Agency	Hancock County Dental Project		38,700.00
NA	Tennessee State University	Nashville Business Incubation Center		50,581.29
NA	Tennessee Technological University	Economic Development Communications Contract		44,672.98
NA	Tennessee Technological University	Modular Skill Enhancement		23,368.51
NA	Tennessee Technological University	Quality Communities CD-ROM		13,746.59
NA	University of Tennessee	TVA TV-80110V GRAD STU INTERN		497.35
NA	University of Tennessee	TVA 97RKW-213469 HONERKAMP 98		1,070.13
NA	University of Tennessee	TVA ACADEMIC ENRICHMENT CONT		6,057.74
NA	University of Tennessee	TVA TV-80114V ACAD ENR-SPENCER		2,500.00
NA	University of Tennessee	TVA 98RE3-231899		481.51
NA	University of Tennessee	TVA TV77105A SUPP#12 BUNTING97		130,444.07
NA	University of Tennessee	TVA TV-84900V FELWSHPS&SCHOLAR		2,400.00
NA	University of Tennessee	TVA LESSONS WITHOUT BORDERS		5,000.00
NA	University of Tennessee	TVA 98RES-234500 HONERKAMP		1,212.09
NA	University of Tennessee	TVA TV-95971V CHAPMAN 96		1,339.39
NA	University of Tennessee	TVA 97RKW-215636 HONERKAMP		1,026.11
NA	University of Tennessee	TVA TV77105A MCCORMICK		375.39
NA	University of Tennessee	TVA 97RKW-220997 HONERKAMP		1,483.12
Total Tennessee Valley Authority				$ 392,030.62

U.S. Department of Veterans Affairs

Direct Programs

CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
64.022	East Tennessee State University	Veterans Home Based Primary Care		$ 214,708.95
64.101	Veterans' Affairs	Burial Expenses Allowance for Veterans		157,950.00
NA	Higher Education Commission	Veterans' Education		187,592.36
NA	Tennessee State University	Localization of Ventricular Arrhythmogenic Foci		51,352.39
Total U.S. Department of Veterans Affairs				$ 611,603.70

Environmental Protection Agency

Direct Programs

CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
66.001	Environment and Conservation	Air Pollution Control Program Support	$ 641,741.58	
66.001	University of Tennessee	Air Pollution Control Program Support	(15,125.60)	$ 626,615.98
66.032	Environment and Conservation	State Indoor Radon Grants		145,546.20
66.419	Environment and Conservation	Water Pollution Control-State and Interstate Program Support		2,005,910.16
66.420	Environment and Conservation	EPA Operator Technical Assistance		656.11
66.432	Environment and Conservation	State Public Water Systems Supervision		986,216.89
66.435	Environment and Conservation	Water Pollution Control-Lake Restoration Cooperative		154.96
66.438	Environment and Conservation	Construction Management Assistance		97,862.64
66.454	Environment and Conservation	Water Quality Management Planning		197,590.00
66.458	Environment and Conservation	Capitalization Grants for State Revolving Funds		32,970,048.50
66.460	Agriculture	Nonpoint Source Implementation Grants		1,288,659.74
66.461	Agriculture	Wetland Protection-Development Grants	24,984.21	
66.461	Environment and Conservation	Wetland Protection-Development Grants	152,399.96	177,384.17
66.463	Environment and Conservation	National Pollutant Discharge Elimination System Related State Program Grants		133,146.97
66.468	Environment and Conservation	Capitalization Grants for Drinking Water State Revolving Fund		364,041.28

State of Tennessee
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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
66.500	Roane State Community College	Environmental Protection-Consolidated Research		46,605.74
66.600	University of Tennessee	Environmental Protection Consolidated Grants-Program Support		61,961.43
66.605	Agriculture	Performance Partnership Grants		573,584.15
66.606	Economic and Community Development	Surveys, Studies, Investigations, and Special Purpose Grants	16,260.51	
66.606	Environment and Conservation	Surveys, Studies, Investigations, and Special Purpose Grants	5,725.62	21,986.13
66.707	Environment and Conservation	TSCA Title VI State Lead Grants-Certification of Lead Based Paint Professionals		110,150.07
66.708	Environment and Conservation	Pollution Prevention Grants Program		58,372.69
66.801	Environment and Conservation	Hazardous Waste Management State Program Support		2,332,758.63
66.802	Environment and Conservation	Superfund State Site-Specific Cooperative Agreements		490,477.90
66.804	Environment and Conservation	State Underground Storage Tanks Program		167,383.91
66.805	Environment and Conservation	Leaking Underground Storage Tank Trust Fund Program		1,621,817.39
66.808	University of Tennessee	Solid Waste Management Assistance		22,559.91
66.809	Environment and Conservation	Superfund State Core Program Cooperative Agreements		861,055.49
NA	Tennessee State University	EPA/MAI Traineeship Program		3,814.15
NA	University of Memphis	Regional Ground Water Management-A Meeting of the Minds		3,985.44
Total Environmental Protection Agency				$ 45,370,346.63

U.S. Department of Energy

Direct Programs

CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
81.041	Economic and Community Development	State Energy Program		$ 420,145.74
81.042	Human Services	Weatherization Assistance for Low-Income Persons		2,157,710.03
81.049	University of Tennessee	Office of Energy Research Financial Assistance Program		205,712.74
81.052	Economic and Community Development	Energy Conservation for Institutional Buildings	$ 74,238.87	
81.052	Environment and Conservation	Energy Conservation for Institutional Buildings	4,185,323.22	
81.052	Pellissippi State Technical Community College	Energy Conservation for Institutional Buildings	22,509.75	
81.052	Pellissippi State Technical Community College	Energy Conservation for Institutional Buildings	20,343.25	4,302,415.09
NA	Economic and Community Development	Petroleum Violation Escrow-Stripper		(323,852.73)
NA	Economic and Community Development	Petroleum Violation Escrow-Exxon		307,502.09
NA	Economic and Community Development	Institutional Conservation Program-Section 155		37,368.00
NA	Tennessee State University	High Ranking Facilities Deactivation Project		14,477.62
NA	Tennessee State University	Oak Ridge Y-12 Plant-RADCON Records Center		1,854.36
NA	Tennessee State University	HBCU Nuclear Energy Training		5,261.68
NA	Tennessee State University	Young Scholars Institute for Alternative Energy Research		6,558.84
NA	Tennessee State University	Oak Ridge Y-12 Plant-Protective Services Organization		2,626.56
NA	Tennessee State University	Oak Ridge Y-12 Plant-National Prototype Center		2,592.00
NA	Tennessee State University	Department of Energy Chair of Excellence Professorship		307,250.02
NA	Tennessee State University	Preventive Maintenance		38,189.76
Total U.S. Department of Energy				$ 7,485,811.80

Federal Emergency Management Agency

Direct Programs

CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
83.011	Military	Hazardous Materials Training Program for Implementation of the Superfund Amendment and Reauthorization Act (SARA) of 1986		$ 70,278.91
83.503	Economic and Community Development	Civil Defense-State and Local Emergency Management Assistance		42,137.27
83.505	Military	State Disaster Preparedness Grants		50,464.23
83.521	Military	Earthquake Hazards Reduction Grants		99,204.29

State of Tennessee
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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
83.526	Military	National Urban Search & Rescue (US&R) Response System		66,163.55
83.528	Military	Emergency Management Institute-Field Training Program		24,030.62
83.534	Military	Emergency Management-State and Local Assistance		1,993,191.03
83.535	Military	Mitigation Assistance		20,952.26
83.544	Military	Public Assistance Grants		16,754,804.45
83.546	Military	National Arson Prevention Initiative		1,571.10
Total Federal Emergency Management Agency				$ 19,122,797.71

U.S. Department of Education

Direct Programs

CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
84.002	Education	Adult Education-State Grant Programs		$ 7,953,765.29
84.004	Education	Civil Rights Training and Advisory Services		6,208.22
84.010	Education	Title 1 Grants to Local Educational Agencies		121,993,842.40
84.011	Education	Migrant Education-Basic State Grant Program		213,038.26
84.013	Education	Title 1 Program for Neglected and Delinquent Children		531,531.45
84.016	University of Memphis	Undergraduate International Studies and Foreign Language Programs		78,775.63
84.021	Tennessee State University	International: Overseas-Group Projects Abroad		23,537.80
84.024	East Tennessee State University	Early Education for Children with Disabilities		87,877.59
84.025	Education	Services for Children with Deaf-Blindness		173,346.45
84.029	Education	Special Education-Personnel Development and Parent Training	$ 31,408.63	
84.029	Tennessee State University	Special Education-Personnel Development and Parent Training	331,353.99	
84.029	University of Memphis	Special Education-Personnel Development and Parent Training	110,734.22	
84.029	University of Tennessee	Special Education-Personnel Development and Parent Training	274,160.40	747,657.24
84.031	Dyersburg State Community College	Higher Education-Institutional Aid	313,854.09	
84.031	Northeast State Technical Community College	Higher Education-Institutional Aid	188,850.91	
84.031	Pellissippi State Technical Community College	Higher Education-Institutional Aid	178,680.78	
84.031	Tennessee State University	Higher Education-Institutional Aid	2,006,932.23	2,688,318.01
84.034	State	Public Library Services		1,534,049.67
84.035	State	Interlibrary Cooperation and Resource Sharing		268,957.96
84.042	Austin Peay State University	TRIO-Student Support Services	140,037.93	
84.042	Dyersburg State Community College	TRIO-Student Support Services	203,404.19	
84.042	East Tennessee State University	TRIO-Student Support Services	164,025.68	
84.042	Nashville State Technical Institute	TRIO-Student Support Services	37,538.81	
84.042	Northeast State Technical Community College	TRIO-Student Support Services	185,104.63	
84.042	Tennessee State University	TRIO-Student Support Services	157,855.57	
84.042	University of Tennessee	TRIO-Student Support Services	419,477.74	1,307,444.55
84.044	Tennessee State University	TRIO-Talent Search	213,351.67	
84.044	University of Tennessee	TRIO-Talent Search	240,316.64	453,668.31
84.047	Austin Peay State University	TRIO-Upward Bound	525,182.01	
84.047	Dyersburg State Community College	TRIO-Upward Bound	208,889.15	
84.047	East Tennessee State University	TRIO-Upward Bound	527,414.82	
84.047	Shelby State Community College	TRIO-Upward Bound	226,136.00	
84.047	Tennessee State University	TRIO-Upward Bound	326,011.57	
84.047	University of Tennessee	TRIO-Upward Bound	1,305,973.55	3,119,607.10
84.048	Education	Vocational Education-Basic Grants to States		19,897,029.59

State of Tennessee
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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
84.066	Austin Peay State University	TRIO-Educational Opportunity Centers	279,326.07	
84.066	University of Tennessee	TRIO-Educational Opportunity Centers	294,746.39	574,072.46
84.069	Tennessee Student Assistance Corporation	State Student Incentives Grants		825,773.00
84.078	University of Tennessee	Special Education: Postsecondary Education Programs for Persons with Disabilities		978,264.38
84.094	Middle Tennessee State University	Harris Fellowships	77,882.26	
84.094	University of Tennessee	Harris Fellowships	1,482.50	79,364.76
84.097	University of Memphis	Law School Clinical Experience Program		3,732.58
84.116	Tennessee State University	Fund for the Improvement of Postsecondary Education		326.00
84.126	Human Services	Rehabilitation Services-Vocational Rehabilitation Grants to States		52,958,346.91
84.129	University of Memphis	Rehabilitation Long-Term Training	80,489.98	
84.129	University of Tennessee	Rehabilitation Long-Term Training	245,322.21	325,812.19
84.141	University of Tennessee	Migrant Education-High School Equivalency Program		341,979.59
84.151	Education	Chapter 2-State Block Grant		(3,027.38)
84.154	State	Public Library Construction and Technology Enhancement		305,930.83
84.158	Education	Secondary Education and Transitional Services for Youths with Disabilities		746,750.03
84.160	University of Tennessee	Training Interpreters for Individuals Who Are Deaf and Individuals Who Are Deaf-Blind		158,967.46
84.162	Education	Immigrant Education		206,786.66
84.164	Education	Eisenhower Mathematics and Science Education-State Grants		23,157.02
84.168	University of Memphis	Eisenhower Professional Development-Federal Activities		132,423.29
84.169	Human Services	Independent Living-State Grants		346,279.28
84.177	Human Services	Rehabilitation Services-Independent Living Services for Older Individuals Who Are Blind		239,396.43
84.181	Education	Special Education-Grants for Infant and Families with Disabilities		4,493,382.16
84.185	Education	Byrd Honors Scholarships		539,460.00
84.186	Education	Safe and Drug-Free Schools and Communities-State Grants		9,068,305.23
84.187	Human Services	Supported Employment Services for Individuals with Severe Disabilities		948,506.66
84.194	Education	Bilingual Education Support Services		39,634.51
84.196	Education	Education for Homeless Children and Youth		544,420.27
84.207	University of Tennessee	Drug-Free Schools and Communities-School Personnel Training		3,958.34
84.213	Education	Even Start-State Educational Agencies		1,424,673.06
84.216	Education	Capital Expenses		65,373.19
84.217	East Tennessee State University	McNair Post-Baccalaureate Achievement	154,961.42	
84.217	University of Tennessee	McNair Post-Baccalaureate Achievement	433,015.51	587,976.93
84.218	Education	State Schools Improvements Grant		201,491.82
84.224	Mental Health/Mental Retardation	State Grants for Assistive Technology		560,370.95
84.243	Education	Tech-Prep Education		1,210,567.55
84.257	University of Tennessee	National Institute for Literacy		305,465.73
84.264	University of Tennessee	Rehabilitation Training-Continuing Education		365,575.93
84.265	Human Services	Rehabilitation Training-State Vocational Rehabilitation Unit In-Service		96,427.99
84.270	Education	Teacher Corps		(3,427.21)
84.276	Education	Goals 2000-State and Local Education Systemic Improvement Grants		4,940,091.18
84.278	Education	School-to-Work Opportunities	2,033,189.35	
84.278	Pellissippi State Technical Community College	School-to-Work Opportunities	384,460.79	2,417,650.14
84.281	Education	Eisenhower Professional Development State Grants		3,976,029.26
84.298	Education	Innovative Education Program Strategies		4,928,233.53
84.318	Education	Technology Literacy Challenge Fund Grants		7,736,083.79
NA	East Tennessee State University	U.S. Department of Education Interest Subsidies		31,545.00
NA	Education	Project on Interstate Migration of Educators		15,000.00
NA	Education	Christa McAuliffe Fellowship Program		55,148.00
NA	Roane State Community College	Veterans Administration Reporting Fees		1,079.00
Subtotal Direct Programs				$ 263,876,014.02

CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
Passed Through Other Industry				
84.278	University of Tennessee	School-to-Work Opportunities (B04999082)		$ 15,282.92
Total U.S. Department of Education				$ 263,891,296.94

National Archives and Records Administration

CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
Direct Programs				
89.003	State	National Historical Publications and Records Grants		$ 3,050.54
Total National Archives and Records Administration				$ 3,050.54

U.S. Department of Health and Human Services

CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
Direct Programs				
93.041	Commission on Aging	Special Programs for the Aging-Title VII, Chapter 3-Programs for Prevention of Elder Abuse, Neglect, and Exploitation		$ 67,466.95
93.042	Commission on Aging	Special Programs for the Aging-Title VII, Chapter 2-Long Term Care Ombudsman Services for Older Individuals		84,690.00
93.043	Commission on Aging	Special Programs for the Aging-Title III, Part F-Disease Prevention and Health Promotion Services		334,432.00
93.046	Commission on Aging	Special Programs for the Aging-Title III, Part D-In Home Services for Frail Older Individuals		181,969.00
93.048	Commission on Aging	Special Program for the Aging-Title IV-Training, Research, and Discretionary Projects and Programs		16,105.37
93.110	Health	Maternal and Child Health Federal Consolidated Programs	$ 81,106.22	
93.110	Tennessee State University	Maternal and Child Health Federal Consolidated Programs	41,600.66	
93.110	University of Tennessee	Maternal and Child Health Federal Consolidated Programs	82,038.48	204,745.36
93.116	Health	Project Grants and Cooperative Agreements for Tuberculosis Control		1,237,817.17
93.119	Mental Health/Mental Retardation	Grants for Technical Assistance Activities Related to Block Grants for Community Mental Health Services		90,284.48
93.121	University of Tennessee	Oral Diseases and Disorders Research		26,120.88
93.124	University of Tennessee	Nurse Anesthetist Traineeships		99,693.18
93.125	Mental Health/Mental Retardation	Mental Health Planning and Demonstration Projects		66,512.00
93.127	Health	Emergency Medical Services for Children		182,767.77
93.130	Health	Primary Care Services-Resource Coordination and Development Primary Care Offices		93,607.45
93.139	University of Tennessee	Financial Assistance for Disadvantaged Health Professions Students		4,568.00
93.150	Mental Health/Mental Retardation	Projects for Assistance in Transition from Homelessness		289,040.00
93.151	East Tennessee State University	Health Center Grants for Homeless Populations		244,440.94
93.161	Health	Health Program for Toxic Substances and Disease Registry		312,774.15
93.173	Tennessee State University	Research Related to Deafness and Communication Disorders		23,733.55
93.192	Tennessee State University	Interdisciplinary Training for Health Care for Rural Areas		(7,714.81)
93.197	Health	Childhood Lead Poisoning Prevention Projects-State and Community-Based Childhood Lead Poisoning Prevention and Surveillance of Blood Levels in Children		555,978.43
93.217	Health	Family Planning-Services		5,062,814.14
93.224	Health	Community Health Centers	987,511.29	
93.224	University of Tennessee	Community Health Centers	120,338.92	1,107,850.21
93.226	University of Tennessee	Health Care Systems Cost and Access Research and Development Grants		351,685.39
93.230	University of Tennessee	Consolidated Knowledge Development and Application Program		141,521.58
93.268	Health	Immunization Grants		3,482,213.79
93.282	University of Tennessee	Mental Health National Research Service Awards for Research		11,750.33

State of Tennessee
Schedule of Expenditures of Federal Awards
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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
93.283	East Tennessee State University	Centers for Disease Control and Prevention-Investigations and Technical Assistance	18,557.24	
93.283	Health	Centers for Disease Control and Prevention-Investigations and Technical Assistance	273,525.22	292,082.46
93.298	East Tennessee State University	Nurse Practitioner and Nurse-Midwifery Education Programs		408,542.64
93.358	East Tennessee State University	Professional Nurse Traineeships	40,926.00	
93.358	Tennessee State University	Professional Nurse Traineeships	23,862.00	
93.358	University of Tennessee	Professional Nurse Traineeships	132,217.96	197,005.96
93.359	East Tennessee State University	Nursing-Special Projects		433,114.33
93.371	University of Tennessee	Biomedical Technology		52,609.23
93.375	Tennessee State University	Minority Biomedical Research Support		163,748.93
93.379	East Tennessee State University	Grants for Graduate Training in Family Medicine		192,019.96
93.389	Tennessee State University	Research Infrastructure		694,981.69
93.397	University of Tennessee	Cancer Centers Support		94,039.84
93.551	University of Tennessee	Abandoned Infants		503,631.83
93.556	Children's Services	Family Preservation and Support Services		4,756,630.85
93.558	Human Services	Temporary Assistance for Needy Families		118,465,443.80
93.560	Human Services	Family Support Payments to States-Assistance Payments		(641,806.58)
93.561	Human Services	Job Opportunities and Basic Skills Training		(19,534.60)
93.563	Human Services	Child Support Enforcement		28,769,006.47
93.566	Human Services	Refugee and Entrant Assistance-State Administered Programs		950,375.00
93.568	Human Services	Low-Income Home Energy Assistance		15,635,680.86
93.569	Human Services	Community Services Block Grant		9,143,366.19
93.571	Human Services	Community Services Block Grant Discretionary Awards - Community Food and Nutrition		700.00
93.575	Human Services	Child Care and Development Block Grant	20,840,865.82	
93.575	Roane State Community College	Child Care and Development Block Grant	14,229.00	20,855,094.82
93.576	Health	Refugee and Entrant Assistance-Discretionary Grants	27,138.63	
93.576	Human Services	Refugee and Entrant Assistance-Discretionary Grants	214,541.93	241,680.56
93.584	Human Services	Refugee and Entrant Assistance-Targeted Assistance		153,263.00
93.585	Human Services	Empowerment Zones Program	1,891,713.84	
93.585	Jackson State Community College	Empowerment Zones Program	50,053.88	1,941,767.72
93.586	Court System	State Court Improvement Program		216,221.32
93.596	Human Services	Child Care Mandatory and Matching Funds of the Child Care and Development Fund		86,040,579.08
93.597	Human Services	Grants to States for Access and Visitation Programs		76,845.49
93.600	Education	Head Start	139,539.03	
93.600	Tennessee State University	Head Start	908,009.61	
93.600	University of Tennessee	Head Start	16,253.33	1,063,801.97
93.608	Tennessee State University	Child Welfare Research and Demonstration		3,552.64
93.630	Mental Health/Mental Retardation	Developmental Disabilities Basic Support and Advocacy Grants		1,207,553.20
93.632	University of Tennessee	Developmental Disabilities University Affiliated Programs		102,462.95
93.643	Human Services	Children's Justice Grants to States		99,709.39
93.645	Children's Services	Child Welfare Services-State Grant		2,311,435.53
93.648	University of Tennessee	Child Welfare Services Training Grants		838,785.61
93.652	Children's Services	Adoption Opportunities		18,052.70
93.656	Mental Health/Mental Retardation	Temporary Child Care and Crisis Nurseries		381,326.65
93.658	Children's Services	Foster Care-Title IV-E		32,219,169.81
93.659	Children's Services	Adoption Assistance		5,022,231.34
93.667	Human Services	Social Services Block Grant		40,104,929.79
93.669	Children's Services	Child Abuse and Neglect State Grants	351,666.86	
93.669	Human Services	Child Abuse and Neglect State Grants	24,575.00	376,241.86
93.671	Human Services	Family Violence Prevention and Services/Grants for Battered Women's Shelters-Grants to States and Indian Tribes		972,028.71
93.674	Children's Services	Independent Living		798,883.01
93.779	Commission on Aging	Health Care Financing Research, Demonstrations and Evaluations	236,444.55	
93.779	Tennessee State University	Health Care Financing Research, Demonstrations and Evaluations	112,363.84	348,808.39

State of Tennessee
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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
93.822	East Tennessee State University	Health Careers Opportunity Program	107,856.93	
93.822	Tennessee State University	Health Careers Opportunity Program	58,518.60	
93.822	University of Tennessee	Health Careers Opportunity Program	330,371.52	496,747.05
93.824	East Tennessee State University	Area Health Education Centers		113,099.72
93.837	University of Tennessee	Heart and Vascular Diseases Research		255,271.24
93.839	Tennessee State University	Blood Diseases and Resources Research		26,470.00
93.847	University of Tennessee	Diabetes, Endocrinology and Metabolism Research		91,681.12
93.854	University of Tennessee	Biological Basis Research in the Neurosciences		3,313.25
93.856	University of Tennessee	Microbiology and Infectious Diseases Research		43,971.52
93.862	University of Tennessee	Genetics and Developmental Biology Research		22,075.36
93.880	Tennessee State University	Minority Access to Research Careers		283,477.10
93.895	East Tennessee State University	Grants for Faculty Development in Family Medicine		115,611.21
93.896	East Tennessee State University	Grants for Predoctoral Training in Family Medicine	63,642.56	
93.896	University of Tennessee	Grants for Predoctoral Training in Family Medicine	39,733.95	103,376.51
93.913	Health	Grants to States for Operation of Offices of Rural Health		49,367.81
93.917	Health	HIV Care Formula Grants		3,905,719.35
93.919	Health	Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs		226,429.20
93.925	East Tennessee State University	Scholarships for Health Professions Students from Disadvantaged Backgrounds	16,606.00	
93.925	Middle Tennessee State University	Scholarships for Health Professions Students from Disadvantaged Backgrounds	5,575.00	
93.925	Tennessee State University	Scholarships for Health Professions Students from Disadvantaged Backgrounds	72,176.00	
93.925	University of Memphis	Scholarships for Health Professions Students from Disadvantaged Backgrounds	52,038.00	
93.925	University of Tennessee	Scholarships for Health Professions Students from Disadvantaged Backgrounds	60,481.00	206,876.00
93.938	Education	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Programs		204,270.83
93.940	Health	HIV Prevention Activities-Health Department Based		3,640,997.69
93.944	Health	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance		656,501.54
93.958	Mental Health/Mental Retardation	Block Grants to Community Mental Health Services		4,609,226.00
93.959	Health	Block Grants for Prevention and Treatment of Substance Abuse		20,501,019.45
93.960	Tennessee State University	Special Minority Initiatives	41,957.30	
93.960	University of Memphis	Special Minority Initiatives	170,313.94	212,271.24
93.962	University of Memphis	Health Administration Traineeships and Special Projects Program		6,837.14
93.969	Tennessee State University	Grants for Geriatric Education Centers		18,690.05
93.977	Health	Preventive Health Services-Sexually Transmitted Diseases Control Grants		1,354,744.48
93.984	East Tennessee State University	Grants for Establishment of Departments of Family Medicine		76,324.90
93.988	Health	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems		165,171.83
93.989	Tennessee State University	Senior International Fellowships		8,836.41
93.991	Health	Preventive Health and Health Services Block Grant		2,884,310.57
93.994	Health	Maternal and Child Health Services Block Grant to the States		12,860,649.31
NA	Agriculture	Pesticide Residue		5,000.00
NA	Agriculture	Joint Project for Forest Fire Protection		30,620.00
NA	Agriculture	Food Sanitation Inspection		30,391.40
NA	Tennessee State University	Improving Health Outcomes for Mothers and Their Children		7,805.89
NA	Tennessee State University	National Youth Sports Program-Girls Sport Clinic		5,156.13
NA	Tennessee State University	National Youth Sports Program	22,740.44	
NA	Tennessee State University	National Youth Sports Program	592.50	
NA	Tennessee State University	National Youth Sports Program	54,179.06	77,512.00
Subtotal Direct Programs				$ 443,052,755.01

CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
Passed Through University Of Cincinnati				
93.142	University of Tennessee	NIEHS Hazardous Waste Worker Health and Safety Training (B13996333)		$ (17,009.73)
Passed Through National Collegiate Athletic Association				
93.570	University of Memphis	Community Services Block Grant - Discretionary Awards (NCAA 95 082)	$ 4,046.75	
93.570	University of Memphis	Community Services Block Grant - Discretionary Awards (NCAA 97 082)	51,422.38	
93.570	University of Memphis	Community Services Block Grant - Discretionary Awards (NCAA 98 404)	13,374.78	$ 68,843.91
Passed Through Lemoyne-Owen College				
93.960	Shelby State Community College	Special Minority Initiatives (HRD-9553315)		$ 16,431.33
Subtotal Pass-Through Programs				$ 68,265.51
Total U.S. Department of Health and Human Services				$ 443,121,020.52

Corporation for National and Community Service

CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
Direct Programs				
94.003	Finance and Administration	State Commissions		$ 198,842.01
94.004	Education	Learn and Serve America-School and Community Based Programs	$ 247,673.93	
94.004	Finance and Administration	Learn and Serve America-School and Community Based Programs	172,826.35	420,500.28
94.005	East Tennessee State University	Learn and Serve America-Higher Education		138,161.05
94.006	Finance and Administration	Americorps	2,828,812.70	
94.006	Roane State Community College	Americorps	4,072.98	2,832,885.68
94.009	Finance and Administration	Training and Technical Assistance		108,881.43
Total Corporation for National and Community Service				$ 3,699,270.45

Social Security Administration

CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
Direct Programs				
96.001	Human Services	Social Security-Disability Insurance		$ 29,400,858.85
Total Social Security Administration				$ 29,400,858.85

Research and Development Cluster

Direct Programs

U.S. Department of Agriculture

CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
10.001	Tennessee State University	Agricultural Research-Basic and Applied Research	$ 14,168.39	
10.001	University of Memphis	Agricultural Research-Basic and Applied Research	17,526.24	
10.001	University of Tennessee	Agricultural Research-Basic and Applied Research	56,988.82	$ 88,683.45
10.025	University of Tennessee	Plant and Animal Disease, Pest Control, and Animal Care		23,874.76
10.055	University of Tennessee	Production Flexibility Payments for Contract Commodities		7,841.96
10.069	University of Tennessee	Conservation Reserve Program		83.45
10.156	University of Tennessee	Federal-State Marketing Improvement Program		38,672.45
10.200	Tennessee State University	Grants for Agricultural Research, Special Research Grants	99,120.83	
10.200	University of Tennessee	Grants for Agricultural Research, Special Research Grants	37,792.32	136,913.15

State of Tennessee
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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
10.202	East Tennessee State University	Cooperative Forestry Research	272.42	
10.202	University of Tennessee	Cooperative Forestry Research	458,808.94	459,081.36
10.203	University of Tennessee	Payments to Agricultural Experiment Stations Under the Hatch Act		4,379,801.84
10.205	Tennessee State University	Payments to 1890 Land-Grant Colleges and Tuskegee University		1,707,702.18
10.206	East Tennessee State University	Grants for Agricultural Research-Competitive Research Grants	93,571.09	
10.206	University of Memphis	Grants for Agricultural Research-Competitive Research Grants	27,655.52	
10.206	University of Tennessee	Grants for Agricultural Research-Competitive Research Grants	631,700.63	752,927.24
10.207	University of Tennessee	Animal Health and Disease Research		72,077.38
10.216	Tennessee State University	1890 Institution Capacity Building Grants		437,164.94
10.217	University of Tennessee	Higher Education Challenge Grants		25,235.46
10.218	Middle Tennessee State University	Buildings and Facilities Program		255,345.76
10.250	University of Tennessee	Agricultural and Rural Economic Research		178,081.71
10.652	Middle Tennessee State University	Forestry Research	61.00	
10.652	University of Tennessee	Forestry Research	170,174.23	170,235.23
10.855	Middle Tennessee State University	Distance Learning and Telemedicine Loans and Grants		183,103.63
10.901	University of Tennessee	Resource Conservation and Development		113.62
10.902	University of Tennessee	Soil and Water Conservation		76,203.36
N/A	Tennessee Technological University	Bat Ecosystem Management	1,535.54	
N/A	Tennessee Technological University	Bat Ecosystem Management	6,383.08	7,918.62
N/A	University of Memphis	Miscellaneous Research Grant		23,533.04
Subtotal U.S. Department of Agriculture				$ 9,024,594.59

U.S. Department of Commerce

CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
11.303	University of Memphis	Economic Development-Technical Assistance		$ 115,320.38
11.431	University of Tennessee	Climate and Atmospheric Research		(0.12)
11.433	East Tennessee State University	Marine Fisheries Initiative		16,663.30
11.609	University of Tennessee	Measurement and Engineering Research and Standards		147,611.71
Subtotal U.S. Department of Commerce				$ 279,595.27

U.S. Department of Defense

CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
12.114	University of Memphis	Collaborative Research and Development		$ 205.47
12.300	Tennessee State University	Basic and Applied Scientific Research	$ 1,171,273.61	
12.300	University of Memphis	Basic and Applied Scientific Research	125,123.08	
12.300	University of Tennessee	Basic and Applied Scientific Research	819,961.20	2,116,357.89
12.420	Tennessee State University	Military Medical Research and Development	185,420.46	
12.420	University of Tennessee	Military Medical Research and Development	114,440.58	299,861.04
12.431	Tennessee State University	Basic Scientific Research	13,837.63	
12.431	University of Tennessee	Basic Scientific Research	478,375.94	492,213.57
12.630	University of Tennessee	Basic, Applied, and Advanced Research in Science and Engineering		24,232.41
12.800	University of Tennessee	Air Force Defense Research Sciences Program		1,312,471.73
12.910	University of Tennessee	Research and Technology Development		85,714.43
NA	Tennessee State University	Research and Engineering Apprentice Program		7,174.78
NA	Tennessee State University	Thin Film Phase Change Heat Transfer		49,163.68
NA	Tennessee Technological University	Habitat Spawning Structure Evaluation and Monitoring Program		18,786.84
NA	University of Memphis	Environmental Assessment of the Cypress Creek Project		18,000.00
NA	University of Memphis	An Innovative Approach for Vortex Tube Flow Analysis and Application in Film Cooling		9,736.89

State of Tennessee
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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)			Disbursements/Issues
NA	University of Memphis	Geophysics Research			3,880.90
NA	University of Memphis	Quasilinear Equations-Qualitative Properties of Solutions			20,484.07
NA	University of Memphis	New Diagnostic Constraints for Coronal Heating and Loop Models			14,492.36
NA	University of Memphis	Graduate Assistantship with the U. S. Attorney's Office			19,820.84
NA	University of Memphis	Modeling the Effects of Optical Depth on the Solar Active Region and Flare Diagnostics			18,801.23
NA	University of Memphis	William C. Foster Fellows Visiting Scholars Program			77,379.45
NA	University of Memphis	Software Engineering Improvement with ADA			41,625.24
NA	University of Memphis	Digitizing Data in Format for the GIS System			21,392.38
NA	University of Memphis	William C. Foster Fellows Visiting Scholars Program			279.19
NA	University of Memphis	Intergovernmental Personnel Agreement			14,175.17
NA	University of Memphis	Numerical Modeling of Droplet Behavior for NASA			4,325.03
NA	University of Memphis	Support for Reelfoot Lake Reconnaissance Study			19,488.00
NA	University of Memphis	Quasilinear Equations-Qualitative Properties of Solutions			2,609.90
NA	University of Memphis	Leadership Institute in Judicial Education			18,707.86
NA	University of Memphis	West Tennessee Tributaries Project			1,617.67
NA	University of Memphis	Journalism Internship			6,027.91
NA	University of Memphis	Leadership Institute in Judicial Education			9,500.00
NA	University of Memphis	West Tennessee Tributaries Project			23,249.80
NA	University of Memphis	Intergovernmental Personnel Agreement			16,970.51
NA	University of Memphis	Analysis of the Nine and Twelve Foot Channels on the Mississippi River			24,950.00
NA	University of Memphis	Intergovernmental Personnel Act			343.35
NA	University of Memphis	Regional Ground Water Management: A Meeting of the Minds			4,500.00
NA	University of Memphis	Shallow Draft Waterways Industry Assessment			24,000.00
NA	University of Memphis	Outcome-Based Performance Measures			3,657.15
NA	University of Tennessee	ARMY DAAH04-95-1-0258 STEINHFF			21,102.33
NA	University of Tennessee	ARMY DAAH04-94-G-0088STEINHOFF			16,199.33
NA	University of Tennessee	ARMY DAAL03-92-G-0293 DONGARRA			(667.26)
NA	University of Tennessee	ARMY DAAH04-95-1-0504 DONGARRA			37,804.86
NA	University of Tennessee	ARMY DAAH04-95-1-0595 DONGRA96			265,719.21
NA	University of Tennessee	ARMY DAAK70-93-C-0037 TRIVEDI			4,649.39
NA	University of Tennessee	ARMY DAAH04-94-G-0004 BOULDIN			152,091.87
NA	University of Tennessee	ARMY DAAL03-91-C-0047 DONGARRA			(24,455.95)
NA	University of Tennessee	ARMY DAAH04-95-1-0077 DONGARRA			697,502.48
Subtotal U.S. Department of Defense				$	5,996,143.00

U.S. Department of Housing and Urban Development

14.511	University of Memphis	Community Outreach Partnership Center Program		$	57,944.76
NA	University of Memphis	Community Outreach Partnership Act			185,044.81
Subtotal U.S. Department of Housing and Urban Development				$	242,989.57

U.S. Department of the Interior

15.250	University of Tennessee	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining		$	97.50
15.252	University of Tennessee	Abandoned Mine Land Reclamation (AMLR) Program			1,122.41
15.608	East Tennessee State University	Fish and Wildlife Management Assistance	$ 2,012.09		
15.608	University of Tennessee	Fish and Wildlife Management Assistance	21,783.23		23,795.32
15.611	University of Memphis	Wildlife Restoration			9,820.51
15.617	University of Tennessee	Wildlife Conservation and Appreciation			15,416.83
15.807	University of Memphis	Earthquake Hazards Reduction Program			501,125.24
15.808	University of Tennessee	U.S. Geological Survey-Research and Data Acquisition			105,385.22
15.810	University of Tennessee	National Cooperative Geologic Mapping Program			10,860.49
15.910	University of Tennessee	National Natural Landmarks Program			77,277.85
15.914	Middle Tennessee State University	National Register of Historical Places			1,000.00

State of Tennessee
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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues		
15.916	Middle Tennessee State University	Outdoor Recreation-Acquisition, Development and Planning		4,666.22	
15.916	University of Tennessee	Outdoor Recreation-Acquisition, Development and Planning		139,230.73	143,896.95
15.921	University of Memphis	Rivers, Trails and Conservation Assistance		10,693.43	
15.921	University of Tennessee	Rivers, Trails and Conservation Assistance		170,744.54	181,437.97
15.923	University of Tennessee	National Center for Preservation Technology and Training			3,585.55
15.976	University of Memphis	Migratory Bird Banding and Data Analysis			8,107.72
15.977	University of Tennessee	State Partnerships			579,471.29
NA	Tennessee Technological University	Maintenance and Production of Ohio River Mussels			9,061.09
NA	Tennessee Technological University	Developing of a Marking Technique for Juvenile Mussels			9,179.66
NA	Tennessee Technological University	Reintroduction of Freshwater Mussels into the Tennessee River			5,686.67
NA	Tennessee Technological University	Relationship Between Stream Discharge and Mussel Recruitment			8,645.32
NA	Tennessee Technological University	Monitoring and Sampling Accuracy Comparisons and Benthic Macroinvertebreate			53.00
NA	Tennessee Technological University	Impacts of Zebra Mussels on Native Freshwater Mussels			23,012.40
NA	Tennessee Technological University	Propagation of Endangered Mussels at Fish Hatcheries by Tennessee Coop Unit			6,765.53
NA	Tennessee Technological University	The Relation Between Mussel Density and Survival During Quarantine			3,767.38
NA	University of Tennessee	NPS CA5000-4-9016/5 EGLIN BEAR			19,091.36
Subtotal U.S. Department of the Interior					$ 1,747,663.26
		U.S. Department of Justice			
16.710	Middle Tennessee State University	Public Safety Partnership and Community Policing Grants			$ 143,751.90
		U.S. Department of Labor			
17.002	University of Tennessee	Labor Force Statistics			$ (549.50)
17.503	University of Tennessee	Occupational Safety and Health-State Program			24,418.25
17.504	University of Tennessee	Consultation Agreements			112,423.11
NA	University of Tennessee	US DOL #J-9-E-1-0030 CON RS 97			478,521.42
Subtotal U.S. Department of Labor					$ 614,813.28
		U.S. Department of Transportation			
20.107	Middle Tennessee State University	Airway Science			$ 182,866.77
20.701	University of Tennessee	University Transportation Centers Program			919,240.67
NA	University of Memphis	Shallow Draft Waterways Industry Assessment			12,206.56
Subtotal U.S. Department of Transportation					$ 1,114,314.00
		National Aeronautics and Space Administration			
43.001	University of Memphis	Aerospace Education Services Program			$ 29,082.49
43.002	Tennessee State University	Technology Transfer			2,200,954.81
NA	East Tennessee State University	Ames Research Center			20,756.33
NA	Middle Tennessee State University	NASA-JOVE Project	$	25,012.16	
NA	Middle Tennessee State University	NASA-JOVE Project		1,078.36	26,090.52
NA	Middle Tennessee State University	Development of Anitonic Polyelectrolytes for Solid State Battery Applications			1,921.10
NA	Tennessee State University	Applied Radiation Research			30,102.09

State of Tennessee
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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
NA	Tennessee State University	The Associate Principal Astronomer for AI Management of Automatic Telescopes		106,027.31
NA	Tennessee State University	Artificial Intelligence Scheduling of Automated Telescopes		283.70
NA	Tennessee State University	Spherical Motor and Neural Controller for Micro Precision Robot Wrist		12,682.05
NA	Tennessee State University	Kinematics of the Disc of TT Hydrae		4,812.92
NA	Tennessee Technological University	Radiation Heat Transfer Procedures for Space-Related Applications		20,133.64
NA	University of Memphis	Geophysics Research		44,759.78
NA	University of Memphis	Modeling Magnetically Actuated Positive Positioning of Cryogenic Propellants		2,496.57
NA	University of Memphis	Environmental Assessment of the Cypress Creek Project		3,628.77
NA	University of Tennessee	NASA NAGW-4774 THONNARD		42,103.91
NA	University of Tennessee	NASA NCC2-5198 LYNE 97		19,536.95
NA	University of Tennessee	NASA NAG5-6237 BLASS		13,539.84
NA	University of Tennessee	NASA NAGW OSSP PROGRAM-MCSWEEN		43,272.08
NA	University of Tennessee	NASA NAG3-2068 CARUTHERS		48,203.34
NA	University of Tennessee	NASA NAG8-1166 MARSHALL ANTAR		15,280.65
NA	University of Tennessee	NASA NAG5-4370 TAYLOR 98		91,818.55
NA	University of Tennessee	NASA-MINERALOGY&SPECTRAL-TAYLR		14,760.00
NA	University of Tennessee	IPA-NASA PO W30865-ASKEW		143,491.75
NA	University of Tennessee	TVA 97RKW-220200 FRANKENBERG98		113,356.14
NA	University of Tennessee	NASA NAG13-55 STENNIS PROJECT		52,540.05
NA	University of Tennessee	NASA NGT-1-52138 TOWNSEND		24,213.81
NA	University of Tennessee	NASA-NCC1 223 LANGLEY-ROTH 96		34,786.19
NA	University of Tennessee	JET PROPULSION LAB #959389 93		303.60
NA	University of Tennessee	NASA NAGW-3453 TAYLOR 93		3,092.11
NA	University of Tennessee	NASA NCC 5-88 BLASS		435.02
NA	University of Tennessee	NASA NAGW-3141 CONGER		3,179.15
NA	University of Tennessee	NASA JPL/CAL TECH 960871 MCSWN		12,448.41
NA	University of Tennessee	NASA NAG8-1442 SANDERS SEE		21,770.89
NA	University of Tennessee	NASA NAG10-0221 CONGER		67,806.87
NA	University of Tennessee	NASA-AMES NCC2-5144 STEINHOFF		30,235.66
NA	University of Tennessee	NASA CONT NAS 9-19751		119,067.49
NA	University of Tennessee	NASA NAG5-3464 THONNARD		129,340.91
NA	University of Tennessee	NASA NAGW-3578 COTA		38,429.90
NA	University of Tennessee	NASA JSC-9-95-9397 TOWNSEND		22,515.41
NA	University of Tennessee	NASA NAG8-1336 MARSHALL-ANTAR		32,973.79
NA	University of Tennessee	NASA PO#H27475D-KEYHANI		8,033.42
Subtotal National Aeronautics and Space Administration				$ 3,650,267.97
		National Foundation on the Arts and Humanities		
45.161	University of Tennessee	Promotion of the Humanities-Research		$ 62,516.12
NA	University of Memphis	Wisdom and Happiness in Aristotle's Moral Philosophy		22,498.71
Subtotal National Foundation on the Arts and Humanities				$ 85,014.83
		National Science Foundation		
47.041	Tennessee Technological University	Engineering Grants	$ 295,641.14	
47.041	University of Memphis	Engineering Grants	131,649.42	
47.041	University of Tennessee	Engineering Grants	719,762.22	$ 1,147,052.78
47.049	East Tennessee State University	Mathematical and Physical Sciences	30,816.12	
47.049	Tennessee State University	Mathematical and Physical Sciences	989,737.12	
47.049	University of Memphis	Mathematical and Physical Sciences	53,308.17	
47.049	University of Tennessee	Mathematical and Physical Sciences	2,238,760.08	3,312,621.49
47.050	University of Memphis	Geosciences	89,246.06	
47.050	University of Tennessee	Geosciences	1,001,277.39	1,090,523.45

CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
47.070	University of Memphis	Computer and Information Science and Engineering	205,614.64	
47.070	University of Tennessee	Computer and Information Science and Engineering	646,839.49	852,454.13
47.074	East Tennessee State University	Biological Sciences	2,829.00	
47.074	University of Memphis	Biological Sciences	351.30	
47.074	University of Tennessee	Biological Sciences	1,222,941.61	1,226,121.91
47.075	University of Memphis	Social, Behavioral, and Economic Sciences	84,893.28	
47.075	University of Tennessee	Social, Behavioral, and Economic Sciences	676,223.00	761,116.28
47.076	Tennessee State University	Education and Human Resources	582,651.90	
47.076	University of Tennessee	Education and Human Resources	188,202.50	770,854.40
NA	Middle Tennessee State University	Embeddings of Graphs in Surfaces		3,574.97
NA	Tennessee Technological University	Biosynthetic Incorporation-Control & Novel Proteins		33,743.49
Subtotal National Science Foundation			$	9,198,062.90

Tennessee Valley Authority

CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)		Disbursements/Issues
NA	Tennessee Technological University	Watts Bar Tailwater Recreational Fishery Assessment	$	56,227.73
NA	Tennessee Technological University	Unlicensed National Information Infrastructure		21,116.93
NA	Tennessee Technological University	Preliminary Laboratory Tests on the Impulse Characteristics of Ground Rods		19,426.40
NA	Tennessee Technological University	Magnetic Field Reduction and Power Transfer Enhancement		351.51
NA	Tennessee Technological University	Parametric Effects on the Impulse Characteristics of Ground Rods		31,798.15
NA	Tennessee Technological University	Feasibility Study for On-Line Cost Analysis and Optimization of a Coal Fired Unit		24,994.92
NA	Tennessee Technological University	Monitoring the Biotic Integrity of Normandy Lake		18,227.28
NA	Tennessee Technological University	Data Collection Using Kingston 9 Simulator		58,869.40
NA	University of Memphis	Support for Reelfoot Lake Reconnaissance Study		22,500.00
NA	University of Tennessee	TVA 97RKW-211517 SAYLER 98		4,600.00
NA	University of Tennessee	TVA TV-95415V RUSSELL 96		38,697.01
NA	University of Tennessee	TVA TV-96737V PERSNL SRVS-COX		273,072.59
NA	University of Tennessee	TVA 97RKW-219279 BIODIESEL RAY		5,157.11
NA	University of Tennessee	TVA 96BKX-188332 RUSSELL 97		5,202.75
NA	University of Tennessee	TVA 97RKW-209473-MARK FLY		5,299.62
NA	University of Tennessee	TVA-TV-81053V SUB12-SICARD		(88,302.65)
NA	University of Tennessee	DEFENSE NUCLEAR AGENCY-FRANKEL		6,287.92
NA	University of Tennessee	TVA TV-92550V EPRI		(5,988.29)
NA	University of Tennessee	TVA 98RES-231413 CLARKE		3,916.48
NA	University of Tennessee	TVA 98PPW-230380-HATCHER		8,730.81
NA	University of Tennessee	TVA 97RKW-215456 GERHARDT		10,550.43
NA	University of Tennessee	TVA TV-80103V ACD ENRCH-HARDEN		19,577.83
NA	University of Tennessee	TVA TV96RKW191909 FRANKENBERG		17,780.29
NA	University of Tennessee	TVA 96RKW-191182 FRANKENBERG97		498.67
NA	University of Tennessee	TVA 97RKW-219279 BIODIESEL 98		34,384.00
NA	University of Tennessee	TVA 96RKW-190194 ELAM		173.27
NA	University of Tennessee	TVA TV-94549V BIRDWELL 96		372,436.33
NA	University of Tennessee	TVA TV-96047V SIMEK		2,867.71
NA	University of Tennessee	TVA TV-92745V HOUSTON		30,097.83
NA	University of Tennessee	TVA TV97RKW-194829 RUSSELL 97		42,599.61
NA	University of Tennessee	TVA TV-89608V KLIPPEL 93		44,985.47
NA	University of Tennessee	TVA 97RKW-203271 SIMEK 97		3,211.76
NA	University of Tennessee	TVA 96BKX-217983 INT RUSSELL98		46,664.50
NA	University of Tennessee	TVA TV-80101V FIELD PRAC 90-91		26,722.54
NA	University of Tennessee	TVA 98RE5-229070 KOCH		47,547.56
NA	University of Tennessee	TVA TV-92880V SIMEK		22,730.44
NA	University of Tennessee	TVA TV-91736V KERLIN		37,887.51

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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues			
NA	University of Tennessee	TVA TV96RKW-192139 ELAM				2,546.63
NA	University of Tennessee	TVA TV-61362A CHAPMAN				(52.90)
NA	University of Tennessee	TVA-DOMESTIC DIF INTL-MENKE 96				(11.08)
NA	University of Tennessee	TVA TV-73564A-BOSE PEAC				1,872.70
NA	University of Tennessee	TVA TV-93594V-SECOND CRK-GNGWR				4,367.44
Subtotal Tennessee Valley Authority					$	1,279,624.21
		U.S. Department of Veterans Affairs				
NA	Tennessee State University	Aphasia in Africian-Americans and Caucasians: Severity and Improvement			$	21,664.57
NA	University of Memphis	Software Engineering Improvement with ADA				25,000.00
Subtotal U.S. Department of Veterans Affairs					$	46,664.57
		Environmental Protection Agency				
66.500	East Tennessee State University	Environmental Protection-Consolidated Research	$	1,335.09		
66.500	University of Tennessee	Environmental Protection-Consolidated Research		784,123.20	$	785,458.29
66.600	University of Tennessee	Environmental Protection Consolidated Grants-Program Support				120,005.56
66.606	University of Tennessee	Surveys, Studies, Investigations, and Special Purpose Grants				502,712.65
66.701	University of Tennessee	Toxic Substances Compliance Monitoring Cooperative Agreements				33,404.81
66.808	University of Tennessee	Solid Waste Management Assistance				30,975.35
NA	Middle Tennessee State University	Environmental Education for Everyone				3,696.25
NA	Tennessee Technological University	Protozoa in Risk Assessment of Legionellosis				113,761.27
NA	Tennessee Technological University	Chattanooga Creek Watershed Community/University Partnership				61,102.73
NA	Tennessee Technological University	Plastics Recycling Workshop				693.68
NA	Tennessee Technological University	Disseminating Community-Based Environmental Curricula Via CD-Rom				22,113.95
NA	University of Memphis	EPA Fellowship Award		14,514.03		
NA	University of Memphis	EPA Fellowship Award		5,050.44		19,564.47
Subtotal Environmental Protection Agency					$	1,693,489.01
		U.S. Department of Energy				
81.049	Middle Tennessee State University	Office of Energy Research Financial Assistance Program	$	1,088.95		
81.049	Tennessee Technological University	Office of Energy Research Financial Assistance Program		48,926.99		
81.049	University of Memphis	Office of Energy Research Financial Assistance Program		26,591.87		
81.049	University of Tennessee	Office of Energy Research Financial Assistance Program		5,981,726.77	$	6,058,334.58
81.057	University of Tennessee	University Coal Research				(492.14)
81.087	Tennessee State University	Renewable Energy Research and Development		108,521.29		
81.087	University of Tennessee	Renewable Energy Research and Development		13,615.32		122,136.61
81.104	University of Tennessee	Technology Development for Environmental Management				1,055,424.93
NA	Middle Tennessee State University	Nuclear Structure Studies Via Neutron Interactions				29,340.44
NA	Tennessee State University	Thermal Insulations in Building Structures				1,084.53
NA	Tennessee State University	Finite Element Analysis of Adhesively Bonded Composite Joints				11,339.66
NA	Tennessee State University	Natural Gas Storage				2,586.95
NA	Tennessee State University	Heat Pump Test Facility				28,542.46
NA	Tennessee State University	Science and Engineering Research Semester				(1,573.21)
NA	Tennessee Technological University	Competing Structures in Nuclei Near Closed Shells				29,094.37

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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
NA	Tennessee Technological University	Proton Resonance Spectroscopy		37,268.66
NA	Tennessee Technological University	Nuclear Structure and Rare Electron Capture Processes		78,792.19
NA	Tennessee Technological University	Thermal Performances of Manufactured Homes		21,075.88
NA	University of Tennessee	DOE-HUMAN MACHINE COOP-DUBEY98		187,195.10
NA	University of Tennessee	DOE-TELEROBOTIC AUTO-PH I HAML		224,547.56
NA	University of Tennessee	WESTINGHOUSE SUBCON AB62437-01		128.70
Subtotal U.S. Department of Energy				$ 7,884,827.27
		United States Information Agency		
82.002	University of Tennessee	Educational Exchange-University Lecturers (Professors) and Research Scholars		$ 46,507.10
		U.S. Department of Education		
84.023	University of Memphis	Special Education-Innovation and Development		$ 75,760.13
84.153	Middle Tennessee State University	Business and International Education		83,249.38
84.220	University of Memphis	Centers for International Business Education		320,914.29
84.306	University of Memphis	National Institute on the Education of At-Risk Students		141,004.99
NA	University of Tennessee	DEG X257C30004 TRIMS-MERRIFILD		5,708.07
Subtotal U.S. Department of Education				$ 626,636.86
		National Archives and Records Administration		
89.003	University of Tennessee	National Historical Publications and Records Grants		$ 176,427.15
		U.S. Department of Health and Human Services		
93.111	University of Memphis	Adolescent Family Life Research Grants		$ 3,539.16
93.113	East Tennessee State University	Biological Response to Environmental Health Hazards		39,894.29
93.121	University of Tennessee	Oral Diseases and Disorders Research		155,240.98
93.136	Tennessee State University	Injury Prevention and Control Research and State and Community Based Programs		1,510.91
93.173	East Tennessee State University	Research Related to Deafness and Communication Disorders	$ 73,955.90	
93.173	University of Memphis	Research Related to Deafness and Communication Disorders	226,832.63	
93.173	University of Tennessee	Research Related to Deafness and Communication Disorders	37,638.64	338,427.17
93.174	University of Memphis	Knowledge Dissemination Grants (Substance Abuse)		28,998.65
93.186	University of Memphis	National Research Services Awards		26,087.67
93.211	University of Tennessee	Rural Telemedicine Grants		17,204.29
93.226	University of Tennessee	Health Care Systems Cost and Access Research and Development Grants		423,902.46
93.242	University of Tennessee	Mental Health Research Grants		745,912.39
93.272	University of Tennessee	Alcohol National Research Service Awards for Research Training		31,651.95
93.273	University of Tennessee	Alcohol Research Programs		313,754.57
93.279	University of Tennessee	Drug Abuse Research Programs		588,590.69
93.283	University of Tennessee	Centers for Disease Control and Prevention-Investigations and Technical Assistance		177.27
93.306	East Tennessee State University	Comparative Research		403.55
93.337	East Tennessee State University	Biomedical Research Support		218,261.90
93.361	University of Tennessee	Nursing Research		574,242.17
93.371	University of Tennessee	Biomedical Technology		1,202,268.19
93.389	East Tennessee State University	Research Infrastructure		25,476.58
93.390	East Tennessee State University	Academic Research Enhancement Award	112,160.44	
93.390	University of Memphis	Academic Research Enhancement Award	120,057.76	

State of Tennessee
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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
93.390	University of Tennessee	Academic Research Enhancement Award	21,013.85	253,232.05
93.393	University of Tennessee	Cancer Cause and Prevention Research		470,359.40
93.395	University of Tennessee	Cancer Treatment Research		613,351.39
93.396	University of Tennessee	Cancer Biology Research		315,691.28
93.397	University of Tennessee	Cancer Centers Support		460,427.28
93.399	University of Memphis	Cancer Control		440,503.01
93.821	East Tennessee State University	Cell Biology and Biophysics Research	5,605.62	
93.821	University of Tennessee	Cell Biology and Biophysics Research	441,352.58	446,958.20
93.837	East Tennessee State University	Heart and Vascular Diseases Research	525,060.30	
93.837	University of Memphis	Heart and Vascular Diseases Research	1,600,300.35	
93.837	University of Tennessee	Heart and Vascular Diseases Research	2,382,365.36	4,507,726.01
93.838	University of Tennessee	Lung Diseases Research		9,496.36
93.839	East Tennessee State University	Blood Diseases and Resources Research	11,035.02	
93.839	University of Tennessee	Blood Diseases and Resources Research	660,935.68	671,970.70
93.846	University of Memphis	Arthritis, Musculoskeletal and Skin Diseases Research	22,923.14	
93.846	University of Tennessee	Arthritis, Musculoskeletal and Skin Diseases Research	676,967.92	699,891.06
93.847	East Tennessee State University	Diabetes, Endocrinology and Metabolism Research	224.08	
93.847	University of Tennessee	Diabetes, Endocrinology and Metabolism Research	1,264,896.72	1,265,120.80
93.848	University of Tennessee	Digestive Diseases and Nutrition Research		509,504.44
93.849	University of Tennessee	Kidney Diseases, Urology and Hematology Research		35,409.67
93.853	University of Tennessee	Clinical Research Related to Neurological Disorders		1,798,202.34
93.854	East Tennessee State University	Biological Basis Research in the Neurosciences	116,529.74	
93.854	University of Memphis	Biological Basis Research in the Neurosciences	115,957.16	
93.854	University of Tennessee	Biological Basis Research in the Neurosciences	1,615,873.89	1,848,360.79
93.855	East Tennessee State University	Allergy, Immunology and Transplantation Research		77,807.15
93.856	University of Memphis	Microbiology and Infectious Diseases Research	94,955.92	
93.856	University of Tennessee	Microbiology and Infectious Diseases Research	1,462,322.38	1,557,278.30
93.859	East Tennessee State University	Pharmacology, Physiology, and Biological Chemistry Research	163,006.92	
93.859	University of Tennessee	Pharmacology, Physiology, and Biological Chemistry Research	603,677.55	766,684.47
93.862	University of Tennessee	Genetics and Developmental Biology Research		499,085.38
93.864	Tennessee State University	Population Research	55,608.98	
93.864	University of Tennessee	Population Research	651,310.92	706,919.90
93.865	University of Memphis	Center for Research for Mothers and Children	119,244.38	
93.865	University of Tennessee	Center for Research for Mothers and Children	2,345,514.89	2,464,759.27
93.866	University of Memphis	Aging Research	321,276.11	
93.866	University of Tennessee	Aging Research	402,352.48	723,628.59
93.867	University of Tennessee	Vision Research		1,201,519.40
93.894	University of Tennessee	Resource and Manpower Development in the Environmental Health Sciences		117,812.36
93.990	University of Tennessee	National Health Promotion		825,176.39
NA	Tennessee State University	Health and Nutrition Examination Surveys		23,817.42
NA	University of Memphis	Intergovernmental Personnel Act		8,490.11
NA	University of Tennessee	USPHS CONT NO1-HC-45137		495,272.85
NA	University of Tennessee	FDN BLOOD RES SUBCONT HD31183		7,590.00
NA	University of Tennessee	USPHS CONT N01-AG-6-2103		1,290,942.53
NA	University of Tennessee	NIH GM22087		265,427.02
NA	University of Tennessee	USPHS CONT FDA-223-95-3006		155,379.55
NA	University of Tennessee	ACR SUBCONT CA-21661		3,762.89
NA	University of Tennessee	UMD NEW JERSEY SUBCONT HS07336		21,658.59
Subtotal U.S. Department of Health and Human Services				$ 30,294,761.79

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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)		Disbursements/Issues
Other Direct Programs				
NA	Middle Tennessee State University	Building Linkages Project		$ 2,962.68
NA	Middle Tennessee State University	Integration of Molecular Methodologies into Biology Laboratory		17,106.91
NA	Tennessee State University	AID-Ghana HIV Prevention		16,626.41
NA	Tennessee State University	Small-Scale Enterprises in Java Indonesia		30,781.82
NA	University of Tennessee	NCI N01-CM-67261 BAKER		207,458.30
NA	University of Tennessee	LOS ALAMOS NTL 6131M0014-3C #2		30,624.95
NA	University of Tennessee	LOCKHEED MARTIN		13,811,984.54
NA	University of Tennessee	LOS ALAMOS NTL LAB-ASCI PROG97		210,249.25
NA	University of Tennessee	LOCKHEED MARTIN IDAHO-UHRIG 98		114,141.32
NA	University of Tennessee	NIH N01-DE-62611 PALMER 97		122,267.35
NA	University of Tennessee	LOCKHEED MAR IDAHO-#1 KABALKA		73,279.54
NA	University of Tennessee	TVA TV-90601V RUSSELL 93		39,970.18
NA	University of Tennessee	NTL BIOLOGICAL SURVEY-MCCORMCK		125,163.83
NA	University of Tennessee	BROOKHAVEN NTL LAB-SORENSEN		129,638.42
NA	University of Tennessee	BATTELLE-PNW-#323146-AR5 HAMEL		16,658.00
NA	University of Tennessee	ARGONNE NTL LAB-ALEXANDRATOS		0.01
NA	University of Tennessee	SANDIA NTL LABS A0-3572 KRIEG		2,047.78
NA	University of Tennessee	TVA TV-85688V PERSNL SRVS-COX		(10,286.01)
NA	University of Tennessee	CORP PUB BROADCASTING-ROBINSON		2,128.65
NA	University of Tennessee	SANDIA NTL LAB-FRANKEL 98		13,273.77
Subtotal Other Direct Programs				$ 14,956,077.70
Subtotal Direct Programs				$ 89,102,226.23
Passed Through Southern Regional Aquaculture Center				
10.200	University of Memphis	Grants for Agricultural Research, Special Research Grants (USDA#95-38500-1411)		$ 3,063.85
11.427	University of Memphis	Fisheries Development and Utilization Research and Development (NA)		7,968.79
Passed Through West Virginia University				
10.202	University of Memphis	Cooperative Forestry Research (94-543)		$ 23,240.81
Passed Through Texas Tech University				
10.206	University of Memphis	Grants for Agricultural Research-Competitive Research Grants (1300/4527-01)		$ 1,511.61
Passed Through Texas A&M				
11.427	University of Memphis	Fisheries Development and Utilization Research and Development (NA)		$ 5,782.56
Passed Through University of Central Florida				
12.300	University of Memphis	Basic and Applied Scientific Research (P.O.#602471)		$ 16.66
Passed Through Nichols Research Corporation				
12.431	University of Tennessee	Basic Scientific Research (B01994060)	$ 98,941.79	
12.431	University of Tennessee	Basic Scientific Research (B01994070)	318,524.55	$ 417,466.34
Passed Through Research and Development Laboratories				
12.800	Middle Tennessee State University	Air Force Defense Research Sciences Program (F4962093C0063)		$ 123.95
Passed Through Memphis/Shelby County Planning and Development				
20.205	University of Memphis	Highway Planning and Construction (CA982440)		$ 8,857.80

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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues			
Passed Through City of Memphis						
20.215	University of Memphis	Highway Training and Education (N-11150)			$	54,036.95
Passed Through Tuskegee University						
43.001	University of Memphis	Aerospace Education Services Program (NAG8-296)			$	22,210.13
Passed Through State University of New York - Buffalo						
47.041	University of Memphis	Engineering Grants (150-7145-A)			$	37,755.96
Passed Through University of Minnesota						
47.041	University of Memphis	Engineering Grants (NSF/DMR-9522286)			$	10,864.88
Passed Through University of California						
47.070	University of Tennessee	Computer and Information Science and Engineering (B04999068)			$	4,792.55
Passed Through University of Alabama						
81.049	University of Tennessee	Office of Energy Research Financial Assistance Program (B01994118)			$	52,927.75
Passed Through University of California - Santa Cruz						
84.306	University of Memphis	National Institute on the Education of At-Risk Students (SC96243-V)			$	28,055.97
Passed Through Massachusetts Institute of Technology						
93.173	University of Memphis	Research Related to Deafness and Communication Disorders (5700000492)			$	149,278.20
Passed Through University of Washington						
93.173	University of Memphis	Research Related to Deafness and Communication Disorders (ROIHD32065/497487)			$	8,257.11
Passed Through Mount Sinai						
93.837	University of Memphis	Heart and Vascular Diseases Research (203236)			$	9,648.48
Passed Through Vanderbilt University						
93.837	University of Memphis	Heart and Vascular Diseases Research (1 R01 DK53952-01)			$	10,958.86
Passed Through University of Michigan						
93.866	University of Memphis	Aging Research (P.O. # H85767)	$	2,365.93		
93.866	University of Memphis	Aging Research (5 P50 AG11715-05)		34,173.50	$	36,539.43
Subtotal					$	893,358.64
Other Pass-Through Programs						
Passed Through Alabama A&M						
NA	University of Memphis	An Innovative Approach for Vortex Tube Flow Analysis and Application in Film Cooling (NA)			$	10,770.42
Passed Through Clark Atlanta University						
NA	University of Memphis	Numerical Analysis of Combustion Instability in a Ramjet (NAG8-1345)			$	22,716.12
NA	University of Memphis	Numerical Modeling of Droplet Behavior (OPS-95-06-668-002)				4,186.42

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 1998

CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)		Disbursements/Issues
Passed Through General Dynamics Ordinance Systems				
NA	University of Memphis	Digitizing Data in Format for the GIS System (J-95-0099)		$ 6,186.81
Passed Through Idaho State University				
NA	Tennessee Technological University	Implementation and Testing of Robust Controllers for Iron Furnace (95-16)		$ 6,883.13
Passed Through Lockheed Martin Energy Systems, Incorporated				
NA	Roane State Community College	Oak Ridge National Lab (19X-SS900V)		$ 4,310.34
NA	Tennessee Technological University	Colloid Superhighways: Attachment and Detachment Mechanisms in Fractured Deposits (49X-SX061V)		25,014.30
NA	Tennessee Technological University	Grandient Corrections in H2 Metal Cluster Interactions (19X-ST580V)		12,562.09
NA	University of Memphis	Yohkoh Solar X-Ray Telescope Program (LMMS/25-61997)		24,642.81
NA	University of Memphis	Modeling the Effects of Optical Depth on the Solar Active Region and Flare Diagnostics (SA30K6570R)		772.35
NA	University of Memphis	Solar Maximum Mission Results Monograph (LMMS/25-61997)		24,803.37
Passed Through Lockheed Martin Corporation				
NA	University of Memphis	National Aeronautics Space Administration Subcontract (ST30G4940R)		$ 920.48
Passed Through Los Alamos National Lab				
NA	Tennessee Technological University	Separation and Analytical Chemistry of the Actinides (493BH0017-3C)		$ 20,032.71
Passed Through Tennessee Applied Physical Sciences, Incorporated				
NA	Tennessee Technological University	SBIR A97-151 Biologically-Generated Multi-Spectral Obscurants (TTU01)		$ 28,891.85
Passed Through Universities Space Research Association				
NA	Tennessee Technological University	Joint Venture in Space Research (NAS8-40181)		$ (33.00)
Subtotal Other Pass-Through Programs				$ 192,660.20
Subtotal Pass-Through Programs				$ 1,086,018.84
Total Research and Development Cluster				$ 90,188,245.07

Student Financial Assistance Cluster

Direct Programs

U.S. Department of Education

CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)		Disbursements/Issues
84.007	Austin Peay State University	Federal Supplemental Educational Opportunity Grants	$ 230,417.00	
84.007	Chattanooga State Technical Community College	Federal Supplemental Educational Opportunity Grants	103,455.25	
84.007	Cleveland State Community College	Federal Supplemental Educational Opportunity Grants	27,773.00	
84.007	Columbia State Community College	Federal Supplemental Educational Opportunity Grants	45,412.00	
84.007	Dyersburg State Community College	Federal Supplemental Educational Opportunity Grants	64,525.00	
84.007	East Tennessee State University	Federal Supplemental Educational Opportunity Grants	483,275.00	

State of Tennessee
Schedule of Expenditures of Federal Awards
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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
84.007	Jackson State Community College	Federal Supplemental Educational Opportunity Grants	88,025.40	
84.007	Middle Tennessee State University	Federal Supplemental Educational Opportunity Grants	378,473.00	
84.007	Motlow State Community College	Federal Supplemental Educational Opportunity Grants	63,177.00	
84.007	Nashville State Technical Institute	Federal Supplemental Educational Opportunity Grants	81,587.69	
84.007	Northeast State Technical Community College	Federal Supplemental Educational Opportunity Grants	81,254.50	
84.007	Pellissippi State Technical Community College	Federal Supplemental Educational Opportunity Grants	151,651.00	
84.007	Roane State Community College	Federal Supplemental Educational Opportunity Grants	109,342.00	
84.007	Shelby State Community College	Federal Supplemental Educational Opportunity Grants	204,913.00	
84.007	State Technical Institute at Memphis	Federal Supplemental Educational Opportunity Grants	99,808.96	
84.007	Tennessee State University	Federal Supplemental Educational Opportunity Grants	1,089,639.33	
84.007	Tennessee Technological University	Federal Supplemental Educational Opportunity Grants	231,799.00	
84.007	University of Memphis	Federal Supplemental Educational Opportunity Grants	336,461.00	
84.007	University of Tennessee	Federal Supplemental Educational Opportunity Grants	973,595.50	
84.007	Volunteer State Community College	Federal Supplemental Educational Opportunity Grants	99,691.00	
84.007	Walters State Community College	Federal Supplemental Educational Opportunity Grants	111,180.75	$ 5,055,456.38
84.032	Tennessee Student Assistance Corporation	Federal Family Education Loans		72,622,971.22
84.033	Austin Peay State University	Federal Work-Study Program	274,055.58	
84.033	Chattanooga State Technical Community College	Federal Work-Study Program	150,595.50	
84.033	Cleveland State Community College	Federal Work-Study Program	59,119.00	
84.033	Columbia State Community College	Federal Work-Study Program	31,326.32	
84.033	Dyersburg State Community College	Federal Work-Study Program	48,358.67	
84.033	East Tennessee State University	Federal Work-Study Program	523,508.30	
84.033	Jackson State Community College	Federal Work-Study Program	74,010.66	
84.033	Middle Tennessee State University	Federal Work-Study Program	569,333.40	
84.033	Motlow State Community College	Federal Work-Study Program	72,689.43	
84.033	Nashville State Technical Institute	Federal Work-Study Program	56,668.26	
84.033	Northeast State Technical Community College	Federal Work-Study Program	57,138.97	
84.033	Pellissippi State Technical Community College	Federal Work-Study Program	112,172.27	
84.033	Roane State Community College	Federal Work-Study Program	142,871.34	
84.033	Shelby State Community College	Federal Work-Study Program	377,192.69	
84.033	State Technical Institute at Memphis	Federal Work-Study Program	123,815.53	
84.033	Tennessee State University	Federal Work-Study Program	952,024.89	
84.033	Tennessee Technological University	Federal Work-Study Program	457,774.14	
84.033	University of Memphis	Federal Work-Study Program	442,666.73	
84.033	University of Tennessee	Federal Work-Study Program	1,988,669.54	
84.033	Volunteer State Community College	Federal Work-Study Program	44,043.84	
84.033	Walters State Community College	Federal Work-Study Program	110,081.30	6,668,116.36

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 1998

CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues		
84.038	Austin Peay State University	Federal Perkins Loan Program-Federal Capital Contributions	15,720.00		
84.038	East Tennessee State University	Federal Perkins Loan Program-Federal Capital Contributions	384,262.00		
84.038	Jackson State Community College	Federal Perkins Loan Program-Federal Capital Contributions	10,000.00		
84.038	Middle Tennessee State University	Federal Perkins Loan Program-Federal Capital Contributions	58,927.00		
84.038	University of Memphis	Federal Perkins Loan Program-Federal Capital Contributions	23,978.00		
84.038	University of Tennessee	Federal Perkins Loan Program-Federal Capital Contributions	461,974.00		
84.038	Volunteer State Community College	Federal Perkins Loan Program-Federal Capital Contributions	1,200.00		956,061.00
84.063	Austin Peay State University	Federal Pell Grant Program	3,708,078.35		
84.063	Chattanooga State Technical Community College	Federal Pell Grant Program	3,474,228.00		
84.063	Cleveland State Community College	Federal Pell Grant Program	1,492,627.25		
84.063	Columbia State Community College	Federal Pell Grant Program	1,842,193.77		
84.063	Dyersburg State Community College	Federal Pell Grant Program	1,485,775.50		
84.063	East Tennessee State University	Federal Pell Grant Program	6,066,630.75		
84.063	Jackson State Community College	Federal Pell Grant Program	2,099,145.85		
84.063	Middle Tennessee State University	Federal Pell Grant Program	7,193,478.00		
84.063	Motlow State Community College	Federal Pell Grant Program	2,076,455.70		
84.063	Nashville State Technical Institute	Federal Pell Grant Program	2,204,495.76		
84.063	Northeast State Technical Community College	Federal Pell Grant Program	1,997,569.61		
84.063	Pellissippi State Technical Community College	Federal Pell Grant Program	3,355,439.95		
84.063	Roane State Community College	Federal Pell Grant Program	4,109,748.18		
84.063	Shelby State Community College	Federal Pell Grant Program	2,761,166.55		
84.063	State Technical Institute at Memphis	Federal Pell Grant Program	2,021,194.13		
84.063	Tennessee State University	Federal Pell Grant Program	6,278,790.00		
84.063	Tennessee Technological University	Federal Pell Grant Program	3,127,002.00		
84.063	University of Memphis	Federal Pell Grant Program	7,382,747.00		
84.063	University of Tennessee	Federal Pell Grant Program	12,325,367.82		
84.063	Volunteer State Community College	Federal Pell Grant Program	2,403,694.50		
84.063	Walters State Community College	Federal Pell Grant Program	3,442,262.66		80,848,091.33
84.268	Middle Tennessee State University	Federal Direct Loan	21,518,719.00		
84.268	Tennessee State University	Federal Direct Loan	24,168,365.75		45,687,084.75
Subtotal U.S. Department of Education				$	211,837,781.04
		U.S. Department of Health and Human Services			
93.820	East Tennessee State University	Scholarships for Students of Exceptional Financial Need		$	11,601.00
Total Student Financial Aid Cluster				$	211,849,382.04

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 1998

CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues			
		Food Stamp Cluster				
Direct Programs						
10.551	Human Services	Food Stamps			$	444,962,406.00
10.561	Human Services	State Administrative Matching Grants for Food Stamp Program				27,465,119.15
Total Food Stamp Cluster					$	472,427,525.15
		Child Nutrition Cluster				
Direct Programs						
10.553	Agriculture	School Breakfast Program	$	651,157.56		
10.553	Education	School Breakfast Program		28,191,896.53	$	28,843,054.09
10.555	Agriculture	National School Lunch Program		16,271,195.46		
10.555	Education	National School Lunch Program		102,801,984.99		119,073,180.45
10.556	Agriculture	Special Milk Program for Children				35,593.37
10.559	Human Services	Summer Food Service Program for Children				5,087,525.84
Total Child Nutrition Cluster					$	153,039,353.75
		Emergency Food Assistance Cluster				
Direct Programs						
10.568	Agriculture	Emergency Food Assistance Program (Administrative Costs)			$	968,193.75
10.569	Agriculture	Emergency Food Assistance (Food Commodities)				4,712,857.00
Total Emergency Food Assistance Cluster					$	5,681,050.75
		Section 8 Cluster				
Direct Programs						
14.182	Tennessee Housing Development Agency	Section 8 New Construction and Substantial Rehabilitation			$	9,395,092.00
14.855	Tennessee Housing Development Agency	Section 8 Rental Voucher				5,673,131.77
14.856	Tennessee Housing Development Agency	Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation				150,619.00
14.857	Tennessee Housing Development Agency	Section 8 Rental Certificate Program				10,001,571.20
Total Section 8 Cluster					$	25,220,413.97
		CDBG - Entitlement and (HUD Administered) Small Cities Cluster				
Direct Programs						
14.218	Jackson State Community College	Community Development Block Grants/Entitlement Grants			$	32,709.81
14.218	Tennessee State University	Community Development Block Grants/Entitlement Grants				55,129.93
Subtotal Direct Programs					$	87,839.74

State of Tennessee
Schedule of Expenditures of Federal Awards
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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
Passed Through City of Memphis				
14.218	Shelby State Community College	Community Development Block Grants/Entitlement Grants (N13043)		79,456.33
14.218	University of Memphis	Community Development Block Grants/Entitlement Grants (Various)		138,640.33
Subtotal Pass-Through Programs				$ 218,096.66
Total CDBG - Entitlement and (HUD Administered) Small Cities Cluster				$ 305,936.40
		Fish and Wildlife Cluster		
Direct Programs				
15.605	Tennessee Wildlife Resources Agency	Sport Fish Restoration		$ 4,097,511.00
15.611	Tennessee Wildlife Resources Agency	Wildlife Restoration	$ 5,294,355.00	
15.611	University of Tennessee	Wildlife Restoration	29,794.56	5,324,149.56
Total Fish and Wildlife Cluster				$ 9,421,660.56
		Employment Services Cluster		
Direct Programs				
17.207	Employment Security	Employment Service	$ 13,761,851.36	
17.207	Labor	Employment Service	844,536.80	$ 14,606,388.16
17.801	Employment Security	Disabled Veterans' Outreach Program (DVOP)		1,112,919.17
17.804	Employment Security	Local Veterans' Employment Representative Program		1,304,991.78
Total Employment Services Cluster				$ 17,024,299.11
		JTPA Cluster		
Direct Programs				
17.246	Labor	Employment and Training Assistance-Dislocated Workers	$ 14,354,285.99	
17.246	State Technical Institute at Memphis	Employment and Training Assistance-Dislocated Workers	13,989.99	$ 14,368,275.98
17.250	Labor	Job Training Partnership Act	33,602,910.92	
17.250	Northeast State Technical Community College	Job Training Partnership Act	36,673.25	
17.250	State Technical Institute at Memphis	Job Training Partnership Act	332,979.51	33,972,563.68
Subtotal Direct Programs				$ 48,340,839.66
Passed Through Clinch Powell Education Cooperative				
17.250	Roane State Community College	Job Training Partnership Act (025-85-IIC)	$ (40.00)	
17.250	Roane State Community College	Job Training Partnership Act (025-12-IIC)	(30.00)	
17.250	Roane State Community College	Job Training Partnership Act (97-01196)	317.16	$ 247.16
Passed Through Knoxville Private Industry Council				
17.250	Pellissippi State Technical Community College	Job Training Partnership Act (99-STO-7-800)	$ 98,079.13	
17.250	University of Tennessee	Job Training Partnership Act (B01993992)	3,454.10	
17.250	University of Tennessee	Job Training Partnership Act (B01999887)	83,901.62	$ 185,434.85

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 1998

CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues			
Passed Through Memphis Private Industry Council						
17.250	Shelby State Community College	Job Training Partnership Act (N12540)	$	13,275.83		
17.250	Shelby State Community College	Job Training Partnership Act (N13349)		255.64	$	13,531.47
Passed Through North Tennessee Private Industry Council						
17.250	Volunteer State Community College	Job Training Partnership Act (C0540)			$	58,979.93
Passed Through Southeast Tennessee Private Industry Council						
17.250	Chattanooga State Technical Community College	Job Training Partnership Act (98-6-999-312-98-91)			$	299,396.89
Passed Through Upper Cumberland Human Resource Agency						
17.250	Roane State Community College	Job Training Partnership Act (98-07-999-400-02)			$	22,827.48
Subtotal Pass-Through Programs					$	580,417.78
Total JTPA Cluster					$	48,921,257.44
Federal Transit Cluster						
Direct Programs						
20.500	Transportation	Federal Transit Capital Improvement Grants	$	1,039,096.42		
20.500	University of Tennessee	Federal Transit Capital Improvement Grants		68,620.81	$	1,107,717.23
Total Federal Transit Cluster					$	1,107,717.23
Highway Safety Cluster						
Direct Programs						
20.600	Transportation	State and Community Highway Safety			$	2,257,087.02
Total Highway Safety Cluster					$	2,257,087.02
Special Education Cluster						
Direct Programs						
84.027	Education	Special Education-Grants to States			$	77,304,221.22
84.173	Education	Special Education-Preschool Grants				7,983,031.24
Total Special Education Cluster					$	85,287,252.46
Aging Cluster						
Direct Programs						
93.044	Commission on Aging	Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers			$	6,435,825.26
93.045	Commission on Aging	Special Programs for the Aging-Title III, Part C-Nutrition Services				8,476,731.00
Total Aging Cluster					$	14,912,556.26

State of Tennessee
Schedule of Expenditures of Federal Awards
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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
Medicaid Cluster				
Direct Programs				
93.775	Commerce and Insurance	State Medicaid Fraud Control Units	$ 20,408.56	
93.775	Tennessee Bureau of Investigation	State Medicaid Fraud Control Units	1,406,129.85	$ 1,426,538.41
93.777	Health	State Survey and Certification of Health Care Providers and Suppliers		3,889,752.96
93.778	Health	Medical Assistance Program		2,557,448,208.14
Total Medicaid Cluster				$ 2,562,764,499.51
Other Federal Assistance				
Direct Programs				
NA	Environment and Conservation	Stripper-PVE Funds		$ 580,080.47
NA	Environment and Conservation	TVA Ocoee Trust Fund		52,245.15
NA	Environment and Conservation	Municipal Water Pollution		2,131.02
NA	Environment and Conservation	Watershed Demonstration		19,266.29
NA	General Services	PVE Funds (Energy Loan Fund)		173,704.06
NA	Military	Emergency Preparedness (Agreement-In-Principle)		883,989.16
NA	Military	Southern States Energy Board		20,546.41
NA	Tennessee Regulatory Authority	Pipeline Safety One-Call Allocations		34,000.00
NA	Tennessee State University	The Economic, Art and Cultural Development Project		133.50
NA	University of Memphis	Journalism Internship		4,971.47
NA	University of Tennessee	CORP PUBLIC BROAD-CSG 97		9,810.10
NA	University of Tennessee	CORP PUBLIC BROAD-CSG 97		31,467.86
NA	University of Tennessee	CORP PUBLIC BROAD-NPPAG 98		37,461.00
NA	University of Tennessee	NTL INSTITUTE STANDARDS&TEC 96		358,151.23
NA	University of Tennessee	JIEE-EC2 SECRETARIAT-FED LABS		(9,604.44)
NA	University of Tennessee	CPB-NEXT STEP GRANT PROJ		4,999.86
NA	University of Tennessee	USAID-LESSONS WITHOUT BORDERS		9,652.00
NA	University of Tennessee	USAID 532A00009700060-DAVIS		210,715.04
NA	University of Tennessee	CORP PUBLIC BROAD-PROD&ACQ 97		19,653.34
NA	University of Tennessee	CORP PUBLIC BROAD-PROD&ACQ 96		2,568.00
NA	University of Tennessee	CORP PUBLIC BROAD-CSG 98		78,381.04
NA	University of Tennessee	CORP PUBLIC BROAD-CSG 98		3,628.09
NA	Veterans Nursing Homes Board	ACMD for Geriatrics Extended Care		26,700.00
Subtotal Direct Programs				$ 2,554,650.65
Passed Through Dickson County Board of Education				
NA	Austin Peay State University	Teaching Science/Math in Elementary Schools (N/A)		$ 395.22
Passed Through Knox County Government				
NA	Walters State Community College	SciCops-T (332-96-97-108)		$ 506.60
Passed Through Wolf River Conservancy				
NA	Tennessee Wildlife Resources Agency	Wolf River Project (14-48-0009-96-1207)		$ 33,262.30
Subtotal Pass-Through Programs				$ 34,164.12
Subtotal Other Federal Assistance				$ 2,588,814.77
Total Federal Assistance				$ 5,314,143,298.12

State of Tennessee
Notes to Schedule of Expenditures of Federal Awards
June 30, 1998

NOTE 1. PURPOSE OF THE SCHEDULE

The single audit of the State of Tennessee for the year ended June 30, 1998, was conducted in accordance with Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, which requires a disclosure of the financial activities of all federally funded programs. To comply with the circular, the Department of Finance and Administration required each department, agency, and institution that received federal funds or had federal financial activity during the year to prepare a schedule of expenditures of federal awards and reconciliations with both the state's accounting system and grantor financial reports. The schedules for the departments, agencies, and institutions were combined to form the Schedule of Expenditures of Federal Awards for the State of Tennessee. The schedules for the technology centers have been combined with the schedules for their lead institutions.

NOTE 2. BASIS OF ACCOUNTING FOR PRESENTATION OF SCHEDULE

The basis of accounting for the Schedule of Expenditures of Federal Awards is principally the cash basis, except accrued payroll for the pay period June 15 to 30 is treated as a cash disbursement for purposes of this schedule.

NOTE 3. NONCASH AWARDS

The Schedule of Expenditures of Federal Awards also contains values for certain noncash assistance. The Food Stamps program (CFDA number 10.551) is presented at the assessed value provided by the federal agency. Commodities in the Food Distribution (CFDA number 10.550), Commodity Supplemental Food Program (CFDA number 10.565), and the Emergency Food Assistance Program (CFDA number 10.569) programs are presented at the assessed value provided by the federal agency. The Donation of Federal Surplus Personal Property program (CFDA number 39.003) is presented at the assessed value provided by the federal agency

NOTE 4. PERKINS LOAN PROGRAM

The state's universities and community colleges participated in the U.S. Department of Education's Federal Perkins Loan Program–Federal Capital Contributions (CFDA number 84.038). The disbursements presented on the Schedule of Expenditures of Federal Awards for the Perkins Loan Program represent the federal capital contributions received by the state universities and community colleges during the year ended June 30, 1998. The loans outstanding less allowances for doubtful accounts (including university matching funds) at June 30, 1998, totaled $44,067,697.46.

NOTE 5. **NURSING STUDENT LOANS**

The University of Memphis, Tennessee State University, Columbia State Community College, Motlow State Community College, and the University of Tennessee participated in the U.S. Department of Health and Human Services' Nursing Student Loans Program (CFDA number 93.364). The disbursements presented on the Schedule of Expenditures of Federal Awards reflect only the federal capital contributions received during the fiscal year. The loans outstanding less allowances for doubtful accounts (including university matching funds) at June 30, 1998, totaled $583,502.29.

NOTE 6. **HEALTH PROFESSION STUDENT LOANS**

The University of Tennessee and East Tennessee State University participated in the U. S. Department of Health and Human Services' Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students (CFDA number 93.342). The disbursements presented on the Schedule of Expenditures of Federal Awards reflect only the federal capital contributions received during the fiscal year. The loans outstanding less an allowance for doubtful accounts (including university matching funds) at June 30, 1998, totaled $4,577,909.43.

NOTE 7. **FEDERAL FAMILY EDUCATION LOANS**

The Tennessee Student Assistance Corporation (TSAC) is the guarantee agency for the Federal Family Education Loans Program (CFDA number 84.032). The federal awards to TSAC for administrative cost allowances and payments on defaulted loans is listed on the Schedule of Expenditures of Federal Awards. The value of the loans issued is not listed on the schedule, since the loans are made directly to the students by the lending institutions. At June 30, 1998, TSAC had insured loans outstanding of $1,809,898,152.96.